

MULTILATERAL TRADE NEGOTIATIONS BRIEFING

HEARING
BEFORE THE
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
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HEARINGS ON MULTILATERAL TRADE NEGOTIATIONS:

Multilateral Trade Negotiations Briefing—February 26, 1979.

Review of the Multilateral Trade Negotiations—May 7, 1979.

Impact of MTN on Agriculture—June 27 and 28, 1979.

(II)

CONTENTS

McGovern, Hon. George, a U.S. Senator from South Dakota, opening statement.....	Page 1
Wolff, Ambassador Allen, Deputy Special Representative for Trade Negotiations, Executive Office of the President.....	2
Saylor, Thomas R., Associate Administrator, Foreign Agricultural Service, U.S. Department of Agriculture.....	28
Starkey, James, Assistant Special Trade Representative for Agriculture Affairs, U.S. Department of Agriculture, accompanied by Turner Oyloe, Assistant Administrator for Commodity Programs, Foreign Agricultural Service.....	37
Rivers, Richard, General Counsel, Office of Special Trade Representative..	54

MULTILATERAL TRADE NEGOTIATIONS BRIEFING

MONDAY, FEBRUARY 26, 1979

**U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.**

The committee met at 9 a.m., in room 324, Russell Senate Office Building, Hon. George McGovern presiding.

Present: Senators McGovern, Huddleston, Stone, Leahy, Zorinsky, Stewart, Pryor, Boren, Helms, Hayakawa, Lugar, Cochran, and Jepsen.

STATEMENT OF HON. GEORGE McGOVERN, A U.S. SENATOR FROM SOUTH DAKOTA

Senator McGOVERN. The committee will convene. This morning's briefing session on the progress of the multilateral trade negotiations is intended to bring Senators and staff up to date on the progress of these negotiations.

We have invited some of the key people from the Office of the Special Trade Representative and the Department of Agriculture who have participated in these negotiations to go over the procedures to be followed in examining the multilateral trade negotiations package, as well as some of the details of the likely agreement.

It is my understanding that the multilateral trade negotiations agreement is nearly complete. And one area of interest to this committee will be the timing for completion. Because the multilateral trade negotiations package is not yet completed, we all will need to use any information provided with discretion.

I am encouraged that in the process of developing the U.S. negotiating positions, agricultural technical advisory committees have been involved closely with regard to major commodity areas. Also an overall agricultural policy advisory committee has been meeting with our negotiators on the broad agricultural negotiation picture.

We will be receiving reports from these advisory groups, which should be helpful in our consideration of the multilateral trade negotiations package. Under the Trade Act of 1974, this committee will have the responsibility for acting on the agricultural section of the multilateral trade negotiations package. Other committees will have a piece of the action also with the Finance Committee having the major responsibility.

The role of our committee will be to report favorably, unfavorably, or take no action on our section of the package, but regardless of our action, the committee will be discharged from further consideration

of the package after 15 days. The Finance Committee will compile all reports on the multilateral trade negotiations package before full Senate consideration.

It is expected that the multilateral trade negotiations package will be submitted to Congress in April with final action being taken first by the House; final action by the Senate could take place by September.

The multilateral trade negotiations package will consist of three parts: First, the trade concessions; second, any changes in U.S. law needed as a result of the negotiations; and third, any proposed changes in administrative regulations.

Once the package is sent to Congress, it cannot be changed or amended under the procedures set forth in the Trade Act of 1974. Our committee may want to be involved in drafting any proposed changes in legislation as it affects agriculture when the package has been completed.

The House Ways and Means Committee agreed last week to extend a waiver on collecting countervailing duties through September 30, 1979. Favorable action on this measure is viewed as essential by the administration to complete negotiations, particularly with the European Community.

A difficult area for this committee and one for Ambassador Wolff to deal with is the impact and coverage of the multilateral trade negotiations package on agricultural trade. Unfortunately, Ambassador Wolff, and others who will be here this morning, our members will have to come and go as other committees are meeting today. I am also involved in a conflict. But I think we can be flexible in covering any particular member's special concerns or interests.

So without any further delay, we will call Ambassador Wolff. Ambassador, you can take this chair, if you would, please.

Ambassador Wolff is the Deputy Special Representative for Trade Negotiations. We are happy to welcome you to the committee, Mr. Ambassador.

**STATEMENT OF AMBASSADOR ALLEN WOLFF, DEPUTY SPECIAL
TRADE REPRESENTATIVE FOR TRADE NEGOTIATIONS, EXECUTIVE
OFFICE OF THE PRESIDENT**

Ambassador WOLFF. Thank you very much, Mr. Chairman.

I do not have any formal remarks, but I thought that I might outline what the MTN consists of and particularly as it relates to agriculture, taking about 15 minutes, if I might, to give a general overview.

This has been the most complex negotiation, I would say, of any kind. That may be a parochial point of view, but more has been covered in this negotiation than in any prior trade negotiation, or for that matter I think in any negotiation on any subject.

Ninety-eight countries were involved, and they addressed not only tariff reductions which were the primary emphasis of prior rounds of trade negotiations, but for the first time the nontariff barriers. As the tariff barriers came down—in the 1930's we had an average tariff of about 60 percent, and the Kennedy round reduced our average industrial tariff to about 8 percent—it became more and more apparent that there were other barriers that were interfering in trade; for

example, product standards and customs valuation, licensing questions, subsidies, and Government procurement regulations. In each of these areas Government intervention was very substantial. It still is.

To take an example, when we tried to ship our citrus to Japan, the Japanese prevented us from using fungicides that were allowable under the international standards of the CODEX Alimentarius in Rome, the world food organization, and our citrus would rot as it crossed the Pacific. So it was a much more real barrier than a 10-, 20-, or even a 50-percent duty. The same with respect to the use of pesticides on cherries; so that it was impossible to ship cherries from the Pacific Northwest.

A few years ago you may remember the problems we had with beef with Canada when we had a ban on diethylstilbestrol. When the courts in this country struck down our ban on the basis of procedural grounds, and the Canadians still maintained theirs, we could no longer ship our beef north of the border.

What we have achieved in the MTN, in the multilateral trade negotiations, is a standards code that will allow us to bring other countries into court, as it were, under international rules, the rules being rather simple and straightforward, that standards not be adopted as barriers to trade. They can be adopted for legitimate health and safety reasons, but not as hidden trade barriers.

And it will be effective. An international complaint procedure tends to be something that forces countries to live up to its obligations where bilateral contacts really are not adequate.

The second area of principal concern in the standards area was the certification. If everything must be tested when it arrives in the foreign country, there are a lot of delays. Things rot at the dock instead of being allowed in. The new code allows certification in the country of origin which should remove these delays.

The second major code area that has been negotiated is the subsidies code. This is the most difficult area, I think, for any government because when we countervail or take offsetting action of any kind against foreign subsidies, that is offsetting other country's national policies. And it is extraordinarily sensitive, particularly difficult where we cannot get at the practice that is hurting us, for example, wheat and wheat flour going into third country markets. There is no way to countervail in our market because the product is not coming into our market. What is happening is we are losing our sales in markets we have—many of the markets we have abroad.

The same thing occurred with respect to poultry. And all that we can enter into competitive subsidization—that has been our only weapon really to date. And years ago both we and the European Community subsidized the consumption of chicken, poultry in Switzerland, which was very nice for the Swiss but did not do anything for our own producers.

So we need better rules and we have negotiated better rules, tougher rules with a more rapid procedure of enforcement abroad, where foreign products materially undercut our prices through the use of subsidies, where subsidies are used to displace exports, will have a rapid GATT dispute settlement procedure to assure that we can bring other countries and quickly get a resolution of these complaints; particularly in wheat—this is going to be vital for us, especially in times like these where the amount of wheat trade is so great.

The second thing that the subsidies code does is give us for the first time some rules on domestic subsidies. This is mainly of importance in the industrial area. Years ago—5 years ago—we countervailed against export of tires from the Michelin Tire Co. in Canada. And it upset the Canadians a great deal.

The reason for the reluctance in this country to countervail with respect to domestic cases has been the absence of injury test. We are outside of the normal GATT law in this respect and without an injury test, we knew we were taking on a fight with any other country when we applied countervailing duties against particularly domestic subsidies; with a livable injury test which was negotiated, I think it will be the means, and we intend to write into the law, the means for a rapid response under our countervailing duty law—a response within a few months rather than within a year to injurious foreign competition.

And this injury test is designed to work particularly well for agriculture if a subsidy results in a material interference with a price support system; for example, if subsidized imports interfere with the orderly marketing of agricultural goods, injury will be found by the U.S. International Trade Commission.

So a much greater responsiveness under the countervailing duty law, I think, would be one of the real pluses for U.S. agriculture as a result of this round of negotiations.

The other codes which I would go through very briefly are important if sometimes obscure. A customs valuation code, currently a 10-percent duty, may in effect be a 20-, 30-, or 40-percent duty because the value of the goods has just increased through a process called uplift. There are many ways in which customs officials manage to turn a small duty into a large one.

We do it to some extent, particularly in areas like benzoyl chemicals or rubber sole footwear, but it is very common abroad and not as restricted as in our system.

We will have a licensing text, licensing code so that licenses particularly in developing countries are not used as a barrier to trade. It is obvious that if a license is required and it just does not happen to be issued before a few months have gone by, then there can be a complete stoppage in trade.

There will be a commercial counterfeiting code, which is almost complete. This is a code which will require the forfeiture of counterfeit goods, where our brand names or foreign brand names are stolen and imitated, if those goods are shipped across borders. Currently, there is very little protection in most countries against this kind of practice and particularly areas such as Levi's or other brand name goods have been subject to this kind of problem.

There will be a dairy and a meat consultative arrangement, which will be described in greater detail by my colleagues, which are primarily consultative, although the dairy agreement has minimum price commitments which are so far below our prices that it does not require any change in the way we do business.

There will be a safeguards code. Right now, the United States—when we take an action, we go through an awful lot of public procedures. Everyone who is affected comes in. They are allowed to testify; they are heard. The ITC makes its findings; the President makes his; Congress has an override.

Abroad, more often than not, there is an ability to just do an under the table deal with the foreign exporting company so that the impact on third countries may not be taken adequately into account. The safeguards code will not require much in the way of any change in our own laws because we already had a very open system. But it will bring out into the open the import relief practices of other countries.

Now I would have devoted a good deal of time to wheat and coarse grains in terms of the conventions that were under negotiation but was saved, I think unfortunately, a great deal of time because—although Tom Saylor will tell you what is likely to happen in that area—we were not able to come to a meaningful and useful wheat agreement from the U.S. point of view and we decided, along with the other participants in that negotiation, that we could not have one at this time.

What the United States sought was meaningful burden sharing on the part of other countries, so that we did not carry the world stocks. And the rest of the world was not yet prepared, particularly the developing countries, to accept responsibility although they should have been interested in the food security that this arrangement would have offered. They just were not willing to have a reasonable price scale and were not willing to have the kind of stocking arrangements that would have been a useful agreement for the United States. So we did not go along.

Now there is another agreement, which is far less detailed than any of the others, which is called in the slang of the negotiators a cathedral, and that is an agricultural consultative mechanism in which policy-makers from USDA, for our part and other countries will get together and talk about their nation's food policies and their production policies. And this will be, I think, potentially, extremely useful. It is not a concession that we have given or gotten from any other country, but the fact of the matter is there is so little multilateral exchange of views on agriculture nowadays on things that affect us intimately. If the Community wants to change its feed policy or the Japanese their internal price structure, these things can affect our sales.

But right now, consultation before the fact is often the exception rather than the rule. And the fact is that it is often too late when a rule has been violated, the decision taken, the measure put into place, and then we complain. What we want to do is have the opportunity to discuss policies while they are being formulated, and in the GATT that has just not been the case.

There will also be agreements on aircraft, where other countries go to duty-free trade in aircraft which is very important to us. And even more important, the elimination of nontariff barriers to trade, such as offset agreements, time arrangements, all the things that are done so that when we go to sell our aircraft which are highly competitive, we find ourselves in a series of other transactions, which are a real barrier to selling aircraft.

We already have a steel agreement in the OECD which will do for steel pretty much what the agricultural consultative framework will do for agriculture. We want to discuss policies as they affect our trade and our industry before it is too late. There will be a government procurement code in which for the first time other governments will open up their procurement to international competitive bidding.

We now have a buy-American preference, a 6, 12, or a 50 percent preference, depending on kind of procurement, where if the foreigners underbid the domestics by 6 percent, they get the transaction, whereas abroad very often there is no publication of bids. The transactions take place on the basis of a telephone call from the interested agency to some interested firms. And we are not in that circuit. And that is about 25 billion dollars' worth of trade that we do not have a shot at right now.

And we will have that in this code and we will be removing buy-American as part of this agreement for certain covered entities that we will contribute to this code.

Now there are really a host of other areas that are covered, but I think those are the highlights of the most important ones.

I might say a word about the process that we went through in reaching these agreements. The Trade Act provided what could have been a burden, but was undoubtedly of enormous benefit to us, and that is a consultative framework of 1,000 private sector advisers and 45 committees. We had an overall Presidential level advisory committee for trade negotiations, a policy level committee for agriculture, and series of eight technical advisory committees in agriculture on grains, oil seeds, livestock, dairy, poultry, fruit and vegetables, cotton, and tobacco.

Without these committees, we would have been operating in the dark, as many foreign governments do. I think it was one of our greatest strengths as negotiators that we had people from every State in the Union and from every producing sector at our elbows, giving us very detailed information and policy guidance throughout this negotiation.

And people like Allen Grant, Tony DeChant, D. W. Brooks, Harvey Ebert, Warren LeBeck, Bob Hampton, Bob Frederick, Ken Naden, and Joe Williams and I could go on and on through hundreds of names of people who served without any pay and who worked closely with us in developing these negotiations.

We also had set up, by the Congress, congressional advisers from the Ways and Means and Finance Committees. And the purpose of all of this was, of course, that the Congress has the power in this country and the President has the negotiating authority under the Constitution. And it was really a cooperative venture to work our way through to a result that we hoped Congress would approve. We had a lousy track record in that area 10 years ago. The negotiators came back from the Kennedy round and they submitted two agreements.

One agreement the Congress said to the extent that this agreement requires you to do anything other than you are already doing, do not do it. This was not considered by our trading partners in a most enthusiastic endorsement that they had ever seen. And the other agreement on the American selling price we submitted annually—the executive branch submitted annually from 1967 through 1972 to the Congress for approval until we finally gave up.

The nontariff agreements, all of these codes I have just described, come back for congressional approval. There was no amendment and time limits on considerations so that it is an up or down vote. We either win or we lose this negotiation as a whole with the guarantees, the safeguards really being before we sign—these 5 years of consulta-

tion with the Congress and consultation with our private sector advisers.

The tariff package does not come up here for approval; as has been the case since 1934, it is an advance grant of authority to the President within specific limits and he can enter into an agreement and cut those tariffs without further approval.

Generally, we cut tariffs by as much as 60 percent, but the average cut in this round of negotiations will be in the 30- to 35-percent range.

Let me just give you very briefly an overview of what we gave and what we got. This is in terms of value of concessions, the specific product concessions.

I would say that clearly by any measure U.S. agriculture got much more than we gave and we are very proud of the results. It is not at all like the Kennedy round. Agriculture was not left out.

First, Bob Strauss said right at the outset—the first thing he did when he was appointed was to say either agriculture gets meaningful benefits out of this round of negotiations or we walk away. And that had an effect on the people we were dealing with, and we did get, I think, some very substantial benefits.

In the area of—I will go through some of these specifics.

Senator McGOVERN. Ambassador Wolff, could I interrupt you just momentarily. We may have trouble holding six Senators here because of all the conflict today. And while we have a working quorum for committee business, we have a couple of routine matters I would like to put before them.

[Whereupon the committee suspended its other business and proceeded to consider the subcommittee assignments and the standing rules of the committee.]

MULTILATERAL TRADE NEGOTIATIONS BRIEFING—RESUMED

Senator McGOVERN. Ambassador, you may continue.

Ambassador WOLFF. Thank you.

I might say a word first about trade coverage—what we were offered and what we are getting in this negotiation to date. We are getting \$3.8 billion and we have offered and are granting foreign countries—

Senator McGOVERN. What was that figure?

Ambassador WOLFF. \$3.8 billion.

Senator McGOVERN. What does that cover?

Ambassador WOLFF. This is the trade coverage of concessions offered the United States. In other words, if a country reduced a tariff on, say, soybeans or soybean concentrates, and it is 100 million dollars' worth of trade, whether the tariff is cut from 50 to 10 percent or from 11 to 10 percent, that is 100 million dollars' worth of trade coverage. It deserves some explanation.

Some of these concessions are large—when our quota in Japan on beef was 3,000 tons and now it is 30,000, that is one heck of an increase.

Senator McGOVERN. Well, when you use that figure \$3.8 billion in concessions, how does that translate into increased trade for the United States? Can you give us any estimate of what the likely

benefits are in terms of increased exports next year, the following year or over the next few years? How does that impact on American agriculture?

Ambassador WOLFF. We do not have an overall estimate yet. It has to be done concession by concession. We are working on it.

But, for example, the Japanese soybean concession, which covers \$700 million of our exports, they already give us duty-free treatment, but they are not required to. They could go to 5-percent duty any day of the week. They have now in this negotiation bound the zero tariff. So will there be a difference in trade now? No, but the threat has been removed of them increasing the tariff. And some day when there may be some competing product with soybeans, I think we will be very happy that we have that binding at a zero rate of tariff.

But is there any trade increase? Currently, there will not be.

So each one of these concessions really has to be evaluated very carefully as to the trade potential that is there.

Senator MCGOVERN. Well, I think what members of the committee would like to know, among other things, Mr. Ambassador, is what benefit there is for agriculture in this in terms of concrete benefits. I realize you can talk about formalizing these concessions so that we know where we are in the terms of trade, but can you not give us some projection as to what the economic benefits of this are likely to be to American agriculture?

Ambassador WOLFF. Yes, but I would have to do it product by product because we do not have a total figure yet. And the total figure would be rather, I think, misleading in any event.

Senator MCGOVERN. There have been figures quoted that it would affect some \$3 billion in American trade and it was not clear from the stories I saw whether that means that we can anticipate an estimated \$3 billion increase in trade or whether it means that \$3 billion of the commerce we now have in agricultural exports is affected by the MTN?

Ambassador WOLFF. It is the latter. It is \$3 billion—actually, it is 1976 trade because that was the basis of the negotiation, the most recent year for which trade figures were available while we were cutting a deal.

So in terms of 1976 trade, our concessions cover \$3 billion worth of U.S. imports and they cover \$3.8 billion of U.S. exports.

Senator MCGOVERN. We have some, what, \$27 billion in exports?

Ambassador WOLFF. That is right.

Senator MCGOVERN. So only \$3.8 billion of that is affected by these negotiations?

Ambassador WOLFF. It is worth a word or two of explanation. For example, the beef concession we received from Japan, they only took 6,000 metric tons of beef in 1977. By 1983 they will take 30,800 tons as part of an increase that will be, I think—represent the opening of their market, which could be hundreds of millions of dollars' worth of trade. This is now 120 million dollars' worth of increased trade, not trade coverage.

So it may be that within this \$3 billion or \$3.8 billion of concessions received, some of the very small items will turn out to be the very largest. In citrus it is a similar expansion, geometric expansion of trade opportunity that we are getting.

On something like soybeans, it is protecting the future. So in various concessions there will be quite a difference in trade impact. In beef in the European Community they have taken off or promised to take off the variable levy, which is an enormous step for us on high quality beef, and replace it with a fixed tariff.

That means, I think, that we will have a very substantial market there in the future.

In poultry they are adjusting the coefficients on turkey parts, and that will have a very substantial impact on future trade, and in Japan reducing the tariff on chickens, which will have a very major impact. So the concessions really vary enormously in value as one might expect because our ability to export differs and the nature of the barriers differ from product to product.

Senator ZORINSKY. As long as you are on this subject, was consideration given to the net gain of exports due to other countries' indirect subsidizations of agriculture, for instance, those that have nationalized railroads or prepaid grain, as this country does not?

In other words, we can get down to zero tariffs guaranteed, but the game being played is in the area of subsidization not direct protection. Our industry cannot compete because of that initial factor. And all the promises on zero tariffs are academic if we do not have some commitment from them to play the game according to some common rules. Is that all taken into consideration?

Senator McGOVERN. Just to give a specific illustration on what I think Senator Zorinsky is talking about, it is my understanding that the European Community supports wheat to its farmers at about \$6 a bushel, and yet they are offering for export, the European Community, some 3 million tons of wheat annually.

Now does not that combination of high payments to their farmers drive down the international price of wheat? It broadens the gap for us in terms of the difference between the market price and the target price which impacts on our Treasury. What are we doing about situations like that?

Ambassador WOLFF. I think that that is absolutely key. That is why we emphasized the codes of conduct in this negotiation much more than the product concessions, although the product concessions I do not mean to belittle them, are still important.

But you are right. If the rules under which trade is conducted do not provide for fair trade, then we have nothing. The subsidy code I think is one of the key documents in this whole negotiation. Right now, the rule is you cannot use subsidies to take more than an equitable share in world trade. What is that? How do you go in and complain about that?

Rarely have countries successfully complained against subsidies under that general sort of rule. It was tough to make a case. We have sharpened up that rule and tightened it up really quite a bit in this negotiation. It is still not perfect, but we have a basis to go in and complain. Our only other possibility—if we did not have this code—would be to enter into competitive subsidization. That is a costly business when really the whole domestic feeling in this country is to balance the budget.

If we had to, I suppose we would, but I would much rather haul people into court internationally and get them to back off. And the

whole point of an international procedure really is that countries are embarrassed when they are brought in and they are found in violation of the rules and they seek to adjust their policies when that happens. I think the subsidies code is really one of the major things we got in this round of negotiations.

Senator ZORINSKY. Well, you point out that the move is to balance world trade. And that can be done with increased exports of agricultural products. So it has got another side of the coin—to subsidies to increase exports and equalize the trade deficit.

Ambassador WOLFF. I would agree.

Senator ZORINSKY. Thank you.

Ambassador WOLFF. You know, we have 27 billion dollars' worth of exports and we might wonder why is it 3 billion dollars' worth of concessions. For one thing, for example, soybeans are duty-free in the Community and bound that way already. So that trade is just outside of this negotiation.

In terms of coarse grains and wheat, we obviously have a good deal of access around the world already. Our major problems are problems such as subsidization. We could not achieve getting other countries to change their food policies other than over an evolutionary course. They would not promise us completely free access for corn in Europe or no resale price increases in Japan for wheat because of their rice problems.

So we could not achieve that. But I would say that, it is important—what happens if the MTN fails, for example? How does it affect grain trade? I would say it will affect grain trade more than any other area probably because, although the concessions are in things like almonds, poultry, citrus, and beef and the specialty crops, without agricultural peace, the trade peace that exists between ourselves and the Community and Japan and others, our trade in grains and wheat and coarse grains is really threatened.

For example, this countervailing duty waiver that is up for extension now before the Congress, if we say to the European Community right in the middle of the negotiation, "We are going to cut off your ham and your cheese exports into this country," they will not necessarily retaliate right away, but when it comes to some of their policy decisions that affect our agriculture, whether it is the feeding of nonfat dry milk or taxes on vegetable oils—all the threats that have occurred over the years—they are going to be just a little bit less receptive to our pleas for a little consideration for our trade.

And, you know, people feel very secure about our grain exports, and they should. Those people, the Europeans and the Japanese, need our grain. There is more land in production in the United States for Japanese consumption than there is in Japan itself. So they rely on us.

But there are things people can do to hurt us, if they want to. And the passage of the MTN, I think, will do more—and the countervailing duty waiver for that matter—will do more for preserving and expanding the major markets we have for coarse grains and wheat and soybeans than anything else we are doing. So it really is all inter-related. And there may not be specific grain concessions outside rice and a few other areas, but the MTN will still be of great benefit, I think, to our whole grain export.

I would be happy to go into any specifics.

Senator McGOVERN. Senator Lugar?

Senator LUGAR. No questions.

Senator McGOVERN. Senator Huddleston?

Senator HUDDLESTON. No questions.

Senator McGOVERN. Senator Jepsen?

Senator JEPSEN. Well, if I might—I may be repeating what was said, but I would like to review this again. It is my understanding that the negotiations relating to agricultural products are on a bilateral product-by-product basis. Is that correct?

Ambassador WOLFF. That is right.

Senator JEPSEN. Could we just take a look at Iowa, for instance, in soybeans, corn, and so on—could we address those individually? I understand that soybeans did not play a major role or were not considered as a major item at all in this negotiation. Is that correct?

Ambassador WOLFF. Well, I would not say that. We, for example, got a duty-free binding from Japan—that means the Japanese cannot increase the tariff on soybeans above zero. In other words, there can never be any duty on our soybeans. And that is 700 million dollars' worth of our trade.

That is worth something to us, I think. I think it is worth a great deal to us. Our soybean advisers, the Oilseed Agricultural Advisory Committee, certainly told us that that was of great value to them.

With respect to Europe, we already have a similar commitment from prior negotiations. So we did not have to go after that. But soybeans will be—there were other concessions as well. That happens to be the most significant one. The Philippines offered to bind the present 10-percent duty; Taiwan agreed to bind its 7-percent duty and that Taiwanese trade is 185 million dollars' worth of soybean trade. So it is valuable—a binding is a commitment not to raise the tariff above the level bound—and it is worth having since developing countries often have 100 and 200 percent duties, and they can affect the mix of their feed by adjusting those duties. We can really get hit rather badly without some of these commitments.

Senator JEPSEN. What did you do with corn then?

Ambassador WOLFF. The major change was a harmonization on our duty with Canada at 5 cents a bushel. With Japan, we got a binding of duty-free treatment for seed corn; Taiwan, a reduction in the tariff from 6 to 3 percent; Philippines, a binding of the duty at 70 percent. That gives you an indication of what developing country tariffs are often at.

I should say that in all of these cases the negotiations are not over. With our major trading partners they are, but there are a number of developing countries that we are still pursuing. Their decision-making procedures are even more complicated than ours, and they are slow.

So there are quite a number of countries yet to come along, but we are close to completion with all the developed countries, with about a dozen of the developing countries, and then the rest of the 98 who are negotiating still have to be pursued. And they will probably come in after we have signed our agreements with the major participants in April.

Now, the point I made on corn I think is worth mentioning. We cannot succeed in getting the European Community or Japan or others to bind their tariffs with respect to corn. But what we can get is better rules to keep them from interfering in what we have today.

Senator JEPSEN. We do not have that much to date, do we, on corn?

Ambassador WOLFF. Well, in the area of subsidies we do. Yes; we have a duty-free binding in Japan on corn. With respect to the European Community, we do not have a binding. They have variable levels which affect us. And we had a choice in this round of negotiations. We could make speeches against the European Community's agricultural system which has many known defects. We could attack it. We could try to see what we could get.

As a practical matter, corn was not something that could be easily changed—it is so fundamental to them that the only thing that can happen over time that I think will increase our access is if they get more rational price levels within the Community. And they are not going to agree with us as we would not agree with them on what our price levels should be. They will not agree with us, but they have a tremendous cost and a terribly inefficient way of running an agricultural policy. And I think over time their internal price levels will come down and they will increase feeding and they will increase their livestock sector and poultry.

Senator HUDDLESTON. If the Senator will yield?

What you have done so far, then, with respect to these commodities is to maintain the status quo?

Ambassador WOLFF. Well, on grain products I have told you what we achieved with respect to corn, but, for example, in some of the smaller traded items, dried beans and peas, there were quite a number of concessions, and on flour there was a 50-percent duty reduction in Australia; and on wheat flour, there was a 50-percent duty reduction in New Zealand; feeds and forage, there was a substantial reduction of duty in Canada, the European Community and Taiwan. So these are—on those particular products there was some major progress.

But when you look at that \$3 billion figure, obviously some of the major traded items are not included for two reasons: one, that we already have a zero binding like we do in Japan on corn or the European Community on soybeans; and the other is that in some fundamental areas of farm agricultural policies we could not effect change.

Senator JEPSEN. Following along, have the quotas on leather and hides to Japan been limited as a result of these negotiations?

Ambassador WOLFF. Not as part of the MTN, but Friday night I finished negotiating with the Japanese on leather. And there will be a substantial increase in our shipments of leather to the Japanese markets. We did not reach any agreement on hides.

There is a lot of pressure on the hide market now. The Japanese are not really the pressure—it seems to be domestic speculation more than Japanese purchasing right at this moment.

Senator JEPSEN. So my information that the quota on leather and hides to Japan have really been severely limited. Is that correct?

Ambassador WOLFF. On leather there is no quota on hides. They buy our hides in great number. That is one of the main problems from the viewpoint of our shoe industry and our tanners. They are squeezed on both sides. They cannot sell the leather to Japan and the Japanese are buying their hides; since the yen appreciated the hides were very cheap from a Japanese point of view. And they were buying them up.

We settled on leather Friday night. They greatly increased their leather quotas. So they will import a lot more leather from the United States. On hides they have no restrictions.

Senator MCGOVERN. Will the Senator yield?

How did we come out on the dairy negotiations?

Ambassador WOLFF. On dairy we were not asking for concessions—we are by far net importers on dairy. We were not asking a great deal of foreign countries. What we did with respect to our offers on cheese is to agree to increase the quotas in the United States by 30,755 metric tons. We also stipulated that the price-break cheeses—these higher cost, specialty-type cheeses would be subject to quota.

So it is something of a tradeoff. More cheese but subject to import limitations where currently there are no limits at all. I think the U.S. dairy producing interest—I would not say they were pleased because I do not know that they will ever admit that they were pleased, but I think that they are comfortable with what was done. What Bob Strauss said to them is that he hoped that at the end of this negotiation they might be growling but not biting. And I think that is where we have ended up. I think that they are satisfied that they were dealt with fairly.

Years ago there was a fear that the dairy industry would be swapped off for feed grain, for example. That really was never practical—could not have occurred.

Senator JEPSEN. May I make a request? Is there a chronological history of all the requests for countervailing duties, say, for the last 5 years? Is that available? Do you have that material?

Ambassador WOLFF. It is under the jurisdiction of the Treasury, but we will get it for you.

Senator JEPSEN. May we have that please?

Ambassador WOLFF. Yes; we will submit it.

Senator MCGOVERN. Senator Boren?

Senator BOREN. We have heard, Mr. Chairman, primarily that some concessions have been made to us and that there are some improvements as far as the United States is concerned.

What are some of the principal concessions or commitments that were sought from this country and which we made from our side in order to obtain favorable treatment in the areas which you have mentioned?

Ambassador WOLFF. Well, to give you some examples, for example, on beef we have agreed to reduce our tariff by a third. That sounds awfully good, but it is a 3-cents-a-pound tariff and we have restraints on beef imports so that that 1-penny-a-pound reduction cannot really increase trade.

Senator BOREN. It does not change the quotas?

Ambassador WOLFF. It does not change the quotas. But we also agreed with the Australians with respect to beef that, should the access to our market drop below 1.2 billion pounds globally which it is not expected to do, that would be considered to be an impairment of concessions.

We are still talking to the Australians. They are coming in tomorrow. So that situation is not done yet, but that gives them a little bit of certainty of access which they were seeking in our market.

With respect to some other areas, dairy I mentioned—the increase of 30,000 plus—30,755 metric tons of cheese but subject to quota for most of that. We have not yet concluded with Mexico, for example, so that the area of fruits and vegetables is not complete—there has not been a great deal done to date.

There are a few things still under negotiation because a lot of our agricultural imports are in developing countries. And we have not closed our deals yet with the developing countries.

So on something like palm oil there is the offer of a duty binding of one-half cent per pound and that is in negotiation with Malaysia. And then there is canned pineapple with Malaysia, but that is not set yet.

So we are not really through on that side. There is an offer to the Australians on wool, 60-percent duty cut on about 54 million dollars' worth of trade.

Those are the principal things. The beef offer alone is 1 billion dollars' worth of trade.

Senator BOREN. When you talked about the \$3 billion earlier in terms of expanded opportunities for this country, is that net figure or is that balanced off by what we would figure in terms of expansions of markets for other countries?

Ambassador WOLFF. That is really just a trade coverage figure.

Senator BOREN. Trade coverage which is plus and minus both?

Ambassador WOLFF. It is \$3.8 billion on what we were offered, what was given to us, and \$3 billion on what we have offered the foreigners. But again, concession by concession, the amount of trade expansion will vary a great deal. The soybean binding from Japan on 700 million dollars' worth of trade will not result in immediate increased trade. It removes a threat of a decrease of that trade, but, you know, on 20 or 30 million dollars' worth of citrus there will be a quadruple of the amount of shipments—of exports.

Senator BOREN. So that includes the bindings, right?

Ambassador WOLFF. Yes. We were not able to reduce our tariff on orange juice to date, but we are working on it. I do not think it will be successful, but the U.S. tariff on orange juice—Senator Stone has expressed an interest in that.

Senator BOREN. So you are talking in terms of \$3 billion as far as the coverage that the United States has offered to other countries and that they have offered us. Is that correct?

Ambassador WOLFF. That is right.

Senator BOREN. What are our total agricultural imports into this country? \$27 billion in exports and how much in imports?

Ambassador WOLFF. \$13 billion.

Senator BOREN. \$13 billion in imports.

In terms of the manufacturing side of this package, can you give a rough estimate in terms of the coverage both in terms of exports and imports? I am trying to determine how much of the package will deal with changes—the magnitude of the changes which are in the manufactured products area as opposed to agricultural products.

Ambassador WOLFF. Industrial trade has been treated somewhat differently and that is because in the industrial trade a tariff formula applies. And it applies to everything except those things specifically excepted. In agriculture we negotiate it item by item.

So in industry if you take out petroleum which is exempt by law and products covered by escape clause actions, such as shoes which

is about \$1 billion, I would say roughly we are talking about in the range of 40 to 50 billion dollars' worth of trade coverage.

We have not done a calculation because all of the developing countries are still off to one side. They have not come along yet and a lot of the trade is theirs. But almost everything we will receive on average in the industrial side a 30 to 35 percent cut, with the higher tariffs cutting by 60 percent, some of the lower ones eliminated completely, and in the middle 20 to 25 percent cuts.

Senator BOREN. In terms of the subsidy code, let us take an example—the subsidy of wheat by the European Common Market countries. What enforceable rights do we have under the proposal? Say, there was a situation where there was dumping of subsidized wheat by some European countries in the African market. Exactly what right do we have? What legal redress would we have under the subsidy code?

Ambassador WOLFF. What we have now so that you can see where the improvement comes is a right of complaint against any country that takes more than its equitable share of world trade through the use of subsidies, and that is as obscure as it sounds. In other words, it is very difficult to show what is equitable.

What we have negotiated is new rules for agricultural subsidies in which materially undercutting prices through the use of subsidies or the displacement of exports is no longer acceptable. You just show that you lost sales and we will be able to bring a complaint under the new—the best procedures that the GATT has ever seen. A panel will be formed of independent people, three to five members. They will have a decision back to the signatories of this code within 150 days.

Now we have spent—of course, we were a little at fault here too—6 years. It is really—I guess it is going on 7 years. I was over in Geneva July 3 and 4, 1972, where they were complaining against the DISC; we complained against their tax practices. These things dragged on forever.

Now under these new procedures, we will have an immediate answer for things like wheat export subsidies. In fact, there are some countries who may not want to sign. They are very reluctant. They are looking at those subsidy rules and they think they are a little bit tough. And it is one of the difficulties in coming up here and testifying at a time when we have not yet signed the agreements, but there is no way around this lengthy process—for me to say these rules are great; it will be read in the Herald Tribune perhaps tomorrow or at least transmitted back through embassies and they will come into that negotiation tomorrow and say, "Well, you know, that is a little too tight."

Senator STONE. Senator Jepsen?

Senator JEPSEN. Thank you, Senator, I have some further questions but I had my turn.

Senator STONE. Senator Pryor?

Senator PRYOR. Ambassador Wolff, if you have the figures. I would be very interested in the status of rice at the present time in the trade negotiations.

Ambassador WOLFF. Yes; we have figures. Paddy rice: Finland agreed to reduce the duty from 15 percent to 5 percent; New Zealand

agreed to bind it free and made a commitment on its licensing practices. On mill rice, Finland agreed to reduce its duty from 25 percent to 15 percent; New Zealand agreed to bind it free and gave a commitment on its licenses; Switzerland reduced the duty from 4.5 to 3 Swiss Francs per 100 kilograms; the European Community will eliminate the corrective amount of 20 units of account per metric ton that currently discriminates against our long grain rice; on broken rice, New Zealand will bind it free and give a commitment on licenses and Norway will eliminate the duty completely.

I think probably the largest and most significant concession there is, probably the European Community. We will have a good deal of increased access for our long grain rice.

Senator PRYOR. In line with the question by Senator Boren, have we had to give up anything basically to get any of concessions on rice?

Ambassador WOLFF. No. No concessions on rice.

Senator PRYOR. That is all I have.

Senator STONE. I would think so. Senator Helms?

Senator HELMS. Have you asked about tobacco?

Senator HUDDLESTON. I was just getting ready to, Senator, but you go right ahead.

Senator HELMS. I shall then.

Ambassador WOLFF. Tobacco is one of the areas I am happy to answer.

Senator HELMS. Do not say it that way. They will read it in the paper tomorrow morning.

Ambassador WOLFF. Well, we did miserably.

Senator HELMS. Yes.

Ambassador WOLFF. But as a matter of fact, there are problems with some of these concessions on tobacco. Tobacco is sensitive every place. No one in the United States wants to increase imports of tobacco and no one abroad is very enthusiastic about it either. But with respect to about \$603 million of our 1973 exports of which \$116 million was on cigarettes and other manufactured tobacco products, we received a number of concessions; the largest one in terms of trade coverage, \$411 million, was from the European Community, and they offered to apply a tariff of 23 percent ad valorem between a minimum and a maximum rate, 28 units of a pound to 30 units of a pound.

I can tell you that our tobacco industry looks with favor upon that concession. It is sort of complex to look at though.

Australia reduced the duty substantially on cigarette tobacco and on tobacco for other products. Canada reduced the duty on unstemmed and on stemmed for cigar binders and wrappers. New Zealand bound the duty free on tobacco for cigars, and reduced the duty on other tobacco products.

The Philippines reduced their duties; Finland reduced the duty to free and on manufactured tobacco we got concessions from Canada and Israel. We have made offers on tobacco for about \$35 million and it is about one-twentieth of what we received—in terms of foreign market access.

On high value cigars, cigar filler leaf and Cigar-wrapper tobacco which is an \$8 million item, a 60 percent cut was offered on the Cigar-wrapper tobacco and 10 to 15 percent cuts on the other items.

So in tobacco, I think the results were rather good.

Senator HELMS. What distinctions, if any, between burley and Flue cured?

Ambassador WOLFF. None.

Senator HELMS. Did the question of scrap tobacco come up any time?

Ambassador WOLFF. Yes.

Mr. STARKEY. We had a number of requests to reduce our duty on scrap tobacco which we turned down because that is a very sensitive domestic category. So we did not do anything on the duty of the scrap tobacco. That is exactly where it is.

Senator HELMS. It is exactly where it is?

Mr. STARKEY. Yes, sir.

Senator HELMS. Thank you, Mr. Chairman.

Senator STONE. Thank you, Senator Helms. Go ahead, Senator Huddleston.

Senator HUDDLESTON. Did you talk with our people about the custom as to how they classify scrap tobacco?

Senator STONE. Would you repeat it a little louder so that—

Senator HUDDLESTON. I was speaking about whether we discussed this country's tightening up of the classification of scrap tobacco. There may be a good deal of tobacco that is higher quality than scrap, but it is classified as scrap.

Ambassador WOLFF. This would be something we would do if we cared to unilaterally—it is not something that has been subject to negotiation.

Senator HUDDLESTON. But there is not any negotiation to indicate that we will continue to be as lax as we have been?

Ambassador WOLFF. No.

Senator HELMS. If the Senator will yield? I am glad it did not come up because this is something we ought to settle with our own customs people.

Senator STONE. In the bilateral between ourselves and Brazil, have you withdrawn the tariff reduction on citrus imports yet?

Ambassador WOLFF. No.

Senator STONE. Have they made any counteroffers yet?

Ambassador WOLFF. They have come up with a series of proposals that are to date inadequate.

Senator STONE. In our last conversation, the STR told us that if counterproposals were inadequate or not offered at all, that our proposals would be withdrawn from the table, and that would take place within 2 to 3 weeks, which was about 5 weeks ago.

Do you have a forecast for when we may consider withdrawing that proposal from the table?

Ambassador WOLFF. Well, the negotiations are coming to a close. We have put off some of our withdrawals on a number of occasions to give the developing countries every opportunity to come along in this round of negotiations. And I hope they will in the broader sense.

But to date there has been a little bit of disappointment.

Senator STONE. In connection with the new subsidy programs, during the last 6 months or so the Europeans were engaged in the process of taking subsidized raw sugar and auctioning it off once a week. Then the sugar at very low prices found its way to our ports, particularly our Southern ports.

Would a subsidy such as the kind you have negotiated prevent that kind of process from taking place?

Ambassador WOLFF. Yes. In fact, I think the response would even be faster. It was pretty fast by the Treasury this time around, but there will be provisions for—provisional duties, the posting of bond or cash deposits, and I think the protection of our domestic industry—industries will be even greater under the subsidy code and the law, which will be drafted with the help of this committee, the Finance Committee, than under current law.

Senator STONE. Senator Cochran, good morning.

Senator COCHRAN. Good morning. I have no questions of the witness.

Senator STONE. Senator Huddleston?

Senator HUDDLESTON. I have one more question before I must leave, Mr. Chairman.

Are you familiar with the negotiations which have occurred in changing the taxing of imported distilled spirits from the wine gallon proof gallon records?

Ambassador WOLFF. Yes. One of the barriers that we maintain to trade which has been subject to negotiation and a matter of concern to our trading partners is wine gallon proof gallon. And we are negotiating with—for example—the European Community on Scotch and on brandy, and with the Canadians on Canadian whisky, to eliminate and convert to equivalent protection the wine gallon proof gallon method of customs and excise tax assessment.

And that really was perceived in the Trade Act as something that was going to come up and should be subject to the Trade Act procedures.

Senator HUDDLESTON. Many of our distillers have a disadvantage. What concession did you get?

Ambassador WOLFF. Well, there are not always distinct linkages item by item in this round of negotiations. This was a high priority item for the European Community and for the Canadians and for others.

And we still, I meant to say, will be negotiating with some of the developing countries and others on some of the other distilled spirits. But I would say that they would not have been in a frame of mind, for example, to move as far on tobacco, without something being done on wine gallon proof gallon.

That does not mean there is a direct swap.

Senator HUDDLESTON. Are you willing to trade our distillers off against our tobacco growers?

Ambassador WOLFF. I would not say so. I would not say so.

Senator HELMS. Would you explain what you have said? What did you say?

Ambassador WOLFF. Currently, it is much easier to ship in distilled spirits in bulk rather than in bottles because anything below 100 proof gets taxed in effect on the water content. And if you ship it in in bulk 100 proof and above, you just get taxed on the alcohol content.

Senator HUDDLESTON. Under our present system, distillers and bottlers in this country have the opportunity to bottle both products that come in. A change would mean that it would be just as cheap to send it down already bottled, and this would be a windfall to producers out of the country. They will, of course, promote their own

products in this country, probably to the detriment of our domestically produced products.

Do you know what specific concession in tobacco, for instance, we traded off for?

Ambassador WOLFF. Well, as I said, nothing in this trade negotiation was given specifically for another concession because you put everything you have on the table. Then somebody says, "Well, you know, I could give you a little bit more on this or that if you can do better for us on this."

Senator HUDDLESTON. Well, we do not deal much with Canada on tobacco.

Ambassador WOLFF. No; but we have a few other things that are of real interest up there.

That is why I say, first of all, wine gallon is being negotiated item by item. We are not doing away with the system and, you know, just giving free ride to countries that are not willing to give sufficient concessions in return.

But it is awfully tough in any negotiation not to give anything. And the wine gallon proof gallon is one of the high priority nontariff barriers that the foreigners sought in this negotiation.

Senator HUDDLESTON. Just a general question, Mr. Chairman, if you add up all the concessions and all the gains, what is the bottom line on our surpluses now, some \$14 billion in balance of trade?

Senator STONE. Well, if the Senator will yield? That is not just another question. That is the question. What would we get out of it bottom line?

Senator HUDDLESTON. Will it increase or decrease?

Ambassador WOLFF. Well, I would say a real increase, a substantial increase, and we will give you figures product by product. But that depends a great deal really on the private sector, on what they can show. When we increase access for citrus or beef or any of these other things, they have got to go through that opening and push and expand the market.

The beef market in Japan is virtually, from our point of view, limitless. The Japanese will not be ecstatic to hear that, but with beef selling at \$25 to \$30 a pound, the demand over there is enormous. And that market is going to be immense. And we have begun a process of opening it up.

Now I am hoping that our Japanese colleagues and audience are not taking notice at this point.

Senator HUDDLESTON. Well, I think that is the bottom line. You have to make concessions, that is true, but when we are running the kind of things we are running today, I think our concessions ought to be pretty hard to come by.

Ambassador WOLFF. Well, we are so very competitive in agriculture in particular—and a lot of the barriers are barriers that were not just tariffs, but barriers that completely excluded us. I think we will have some very major gains and we will be glad to provide you with estimates product by product.

Senator STONE. I have one other question and then I will call on Senator Leahy. What of the offer by the United States to reduce duties on imported avocados? And what counteroffers do you have in prospect or on the table from the Dominican Republic, the principal source of our avocado imports?

Mr. Starkey?

Mr. STARKEY. Sir, the offer is still on the table. To cut the duty on import of avocados the Dominicans have tabled an offer that covers some \$20 million, as I recall, in our export trade. The balance is heavily in our favor in terms of bilateral balance we would have with the Dominicans; that negotiation is still underway. The Dominicans have not signed off on it as far as I am aware in their capital yet, but if they do come through, it will be a very favorable balance for the United States in exchange for that duty cut.

Senator STONE. In Avocados?

Mr. STARKEY. Yes; as well as some other products.

Ambassador WOLFF. I might note for the record that Ambassador Strauss is an avocado grower and he is watching the avocado situation quite closely.

Senator STONE. All I ever hoped for in a situation like this is a healthy conflict of interest.

Senator Leahy?

Senator LEAHY. Mr. Chairman, I know that the last thing in the world we would want would be for our witness to give a breakdown of the parochial interest of the Senators on the committee, and so because of that, I will not raise any questions about international negotiations on maple syrup.

I do, however, have a couple of minor matters that involve dairy products. And in this attempt to stay away from any parochialism, I will point to the fact that Vermont is not the only dairy State in the country, but I know that Senator McGovern had apparently asked a couple of questions about this earlier. And, Mr. Chairman, I have been discussing this also with some of the Senators who come from major dairy States, such as Senator Nelson from Wisconsin. And because of that, I would like the record to stay open for a few days so I can submit some more detailed questions on both his and my behalf.*

Senator STONE. Without objection.

Senator LEAHY. And maybe if you could just give me a thumbnail sketch of where we stand? You know, there is a concern on the part of some of our dairy producers that somehow all the negotiations regarding agricultural products kind of get worked down. It is the last minute and we will throw in something on dairy. There is a concern of the part of some of the dairy producers that they will come in short on the negotiations, partly because of the fact that dairy manufacturing or dairy production is so heavily subsidized. A lot of the European markets are very heavily subsidized to an extent that they are able to compete. They have a significant advantage over our own products. And we have the other questions of inspection standards. So if you could just give me a thumbnail of where we now stand.

What can we anticipate in the way of dairy imports and in the nature of the concessions made in the trade negotiations?

Ambassador WOLFF. I might say that we know dairy is sensitive; we know the dairy industry is sensitive under the current conditions of world trade where others so heavily subsidize dairy products. And we

*The answers to questions submitted by Senators Leahy and Nelson were not received in time for inclusion in the hearing record. However, the subject matter was discussed in subsequent hearings relating to Multilateral Trade Negotiations.

have consulted as closely with the dairy sector as any in this negotiation. We have worked very closely with them.

What we have said we would do and what we have promised we would do in this negotiation is place all cheese imports, including price-break cheeses under quota, except sheep and goats' milk cheeses and a few other specialty cheeses that are packaged for retail sale.

So that is a plus from the dairy industry's point of view. There will be a slight expansion in the quotas; an additional 30,755 metric tons over 1977 import levels which would be phased in. What has happened is that some of the countries that have been our traditional suppliers of cheese, such as the European Community, but other European suppliers as well and other developing countries, would be able to continue to ship but subject to limits.

And they will agree not to undercut with their subsidies U.S. domestic cheese prices. So there will be a specific commitment on cheese. I think that that is a good swap from the point of view of the dairy industry itself.

Senator LEAHY. But there will be an increase?

Ambassador WOLFF. There will be an increase.

Senator LEAHY. 37,000—

Ambassador WOLFF. Yes. The cheeses were not under quota, these price-break cheeses. There is an increase currently taking place as of the last few years. And this in effect puts a ceiling on that increase.

Already in 1978 half of the amount that we have negotiated came in as an increase.

Senator LEAHY. Well, now does that mean that that would be taken off the 37,000?

Ambassador WOLFF. It is part of it; it counts.

Senator LEAHY. In other words, we are talking about 18,000 approximately above what is already put in. Is that correct?

Ambassador WOLFF. Yes, above the 1978 level.

Now you asked also about subsidies and standards. The subsidies code I think will be very helpful in getting a much faster response for our dairy industry against subsidies that undercut their prices, subsidies that materially interfere with the orderly marketing of dairy products or interfere with the price support system.

If, contrary to this agreement—contrary to either the cheese agreement or the subsidies code—there is an impact on our market through use of subsidies, our countervailing duty law is going to provide a response.

Now where third country subsidies occur, when we are selling nonfat dry milk, we will also for the first time really have an effective handle over bringing international complaints against subsidies which deprive us of sales in third country markets.

And on standards for the first time we will have an agreement that standards cannot be used as barrier to trade and we will have a complaint procedure internationally under the standards code that will allow us to bring international complaints and get a rectification of that problem.

Senator LEAHY. What do you mean standards cannot be used as a barrier of trade? Explain that just a little bit.

Ambassador WOLFF. Well, take for example the Japanese and fungicides on citrus—we could not ship our citrus across the Pacific,

not being able to use the fungicides even though under internationally agreed standards and under the World Food Organization the tolerances were sufficient to allow us to use those fungicides. It took us years of talking with the Japanese to convince them that it was not a public health problem, and they reduced the standard and allowed us to use the fungicides.

We would now be able to bring a complaint. Instead of just having diplomatic channels open to us, we could bring a complaint before the body of signatories of this code on standards and within a relatively brief period of time get an answer.

Senator LEAHY. On the other edge of that sword, if products are being shipped here that do not measure up to our own recognized standards, do we have the ability to block those?

Ambassador WOLFF. Yes. My assumption is that we could.

Senator LEAHY. The country doing the exporting could then make the same complaints?

Ambassador WOLFF. They could, but my assumption is that when we adopt a standard for—I will give us the benefit of the doubt—we adopt it for legitimate health and safety public welfare reasons. It is not always the case abroad in our experience.

Senator LEAHY. Well, is that not the case for some of our citrus exports to Japan? While we are told that there is a public health question, is it not as much political and economic question, as sometimes happens with the Japanese when products come into their country?

Consider the seemingly arbitrary decisions that were made by the Japanese blocking American products—agricultural or others—from coming into their country when they are very, very eager to deluge this country with enormous amounts of products.

Ambassador WOLFF. To be fair to the Japanese, I think that they have some legitimate concerns. They took an inordinately long time to work their way through those concerns, get extra opinions and finally clear our way to the use of these fungicides or pesticides on cherries from the Pacific Northwest.

I would say a clearer case is, for example, with Canada, when we had a ban on diethylstilbestrol in beef, as you remember, and the Canadians shut the border on the FDA ban. And it was struck down.

And then when we worked out a certification system and presumably trade should have flowed freely again, they still maintained restrictions. And their problem is not as much the DES as the beef.

That kind of thing I think you would be able to get at quite well under the code.

Senator LEAHY. Thank you, Mr. Chairman.

Senator STONE. Senator Hayakawa?

I would like to urge all of the Senators to try and stay because if we get one more Senator, we can move out the nomination of Under Secretary Williams. We need a 10th man.

Senator Hayakawa?

Senator HAYAKAWA. I am sorry, Mr. Ambassador, I have not heard your earlier testimony this morning. You were being asked general questions about the orange exports, were you not?

Ambassador WOLFF. Some, yes, sir.

Senator HAYAKAWA. And maybe orange growers are not receiving any benefits from the MTN's, right?

Ambassador WOLFF. No. I would say that with respect to citrus, we made some very major progress with an enormous amount of effort, particularly with Japan.

We have not yet been successful with the European Community in our negotiations on reduction of their tariff on citrus, but——

Senator HAYAKAWA. This is what I was concerned about, the European Community. What are the particular barriers that are holding up against our citrus?

Ambassador WOLFF. It is a tariff—discriminatory tariff preference favoring the Mediterranean producers, the Spanish, the Moroccans, the Israelis, and a number of others, and the Europeans plain do not want to do it. The Italians, in particular, feel, I think erroneously, that they would be adversely affected. I think if we could ship our citrus freely into Europe, we would expand the market for citrus and the Italians would benefit. They do not see it that way. They are worried and they do not want to do it.

Senator HAYAKAWA. Has not that been the same problem with Japan?

Ambassador WOLFF. Well, Japan certainly started with the same point of view and they still maintain it, but with an enormous amount of effort on our part, the Japanese expanded their quota from 15,000 tons, which existed prior to January of 1978, to an 82,000-metric-ton number by 1983 with a binding of duties, and reduced their duties on grapefruit, lemons and limes, orange juice; and expanded the quota on grapefruit juice and lemon juice.

So we have made progress with Japan on citrus—we have made quite a bit of progress. It is only—I might say—that if we stop there, if we only got this expansion to 82,000 metric tons in oranges by 1983, I do not think it would have been a very good negotiation, but this is to begin the process of opening the Japanese market completely in the off-season.

Senator HAYAKAWA. 82,000 tons is not an awful lot for a population of 9 million, is it?

Ambassador WOLFF. No; 110 million. And you can see the price increase in Tokyo in the summer when they just do not grow oranges. I traveled around Wakayama Peninsula in December before we settled on this agreement, and I asked them when their Nikan oranges which they grow in every backyard and every hillside and every scrap yard—and not in the season. They really do not have oranges in the time we want to ship them.

Senator HAYAKAWA. Is there a significant difference between Florida citrus fruit and California citrus fruit in the way they are accepted in Japan?

Ambassador WOLFF. Well, the difference in terms of access is season, and we put a great deal of effort on trying to move up the season and get more into April and May, which would help Florida. And we have achieved some success.

Senator HAYAKAWA. Do we import Nikan oranges?

Ambassador WOLFF. We do in some States. Of course, we do in cans in enormous quantity.

Senator HAYAKAWA. Yes; I understand that.

Ambassador WOLFF. Fresh, there is a ban due to fungus. Certain Northern States allow the importation—I think it is what, 13—6 allow the importation of the Nikans.

Senator HAYAKAWA. We import more Nikans than we export oranges?

Ambassador WOLFF. If you count the canned, we have a citrus deficit with Japan which is really extraordinary.

Senator HAYAKAWA. And is this being discussed in the negotiations at all?

Ambassador WOLFF. Oh, yes. We have achieved—of course, on a small base—a six times increase in the fresh oranges that we will ship. And that is just the beginning; that is a start. And we look forward to a very major increase starting again in 1983.

Senator HAYAKAWA. Now, as I understand a very few years ago the Japanese were totally unacquainted with lemons. I remember hearing about a campaign in which they had billboards with a picture of a lemon to acquaint the Japanese people with what they were like. Are they importing lots of lemons now?

Ambassador WOLFF. The lemons have increased quite a bit. And I might say one of the girls in our office, a lawyer, was over there and she was taken to lunch. And one of her hosts said, "I would like you to try something new. I do not know the name for it—something new for dessert." And out came the half grapefruit.

And there is an enormous market in Japan obviously and there will be for our citrus products.

Senator HAYAKAWA. I understand they are taking a lot of avocados.

Ambassador WOLFF. Yes.

Senator HAYAKAWA. Are they?

Ambassador WOLFF. Yes. And I believe we got a concession on avocados.

Mr. STARKEY. Fifty percent.

Ambassador WOLFF. Fifty percent cut on tariff on avocados in this negotiation with the Japanese.

Senator HAYAKAWA. Well, how heavy is the tariff to start with?

Ambassador WOLFF. Forty percent cut.

Senator HAYAKAWA. Is it true that the improvements in American citrus exports—they are more helpful to Florida than to California?

Ambassador WOLFF. I would not say so. I would say—and I think it is true—that it has been rather balanced.

The Japanese are still quite tight on juice. In terms of fresh fruit, I would say that both California—and for that matter Arizona and Texas—are right alongside of Florida.

We have advisers from both California and Florida, and for that matter other citrus-producing States, with us in Japan. And they have been most helpful to us. And there was not any favoritism on either coast.

Senator HAYAKAWA. Thank you, Mr. Ambassador. Thank you, Mr. Chairman.

Senator STONE. Are there any other questions of the Ambassador before we call on our next witness from the STR?

Senator ZORINSKY. I have one last question I would like to ask, and that is again with respect to what we have been guaranteed. How does that line up with what other countries have been also guaranteed?

Earlier you made the statement that the United States has been guaranteed a zero tariff on soybeans from Japan now as a concession to us for trade. What kind of a guarantee on tariffs does Brazil have with Japan?

Ambassador WOLFF. Well, first of all, all tariffs are applied on a non-discriminatory basis with a number of exceptions so that for developed countries, industrialized countries, they all get the same tariff rate.

Now developing countries, as we give them generalized system of preference—we give them duty-free entry on quite a number of products. Were we not to have a binding of duty-free entry into Japan, they could have under international rules, given Brazil, for example, a tariff preference, where they could have put us at five and Brazil at zero. That kind of thing cannot occur if you have a duty-free binding.

So the Brazilians will get whatever we get as long as we are at zero. They can do a little bit better than we do as a developing country in certain products and in certain markets. But on soybeans we now have duty-free bindings from Europe and we have duty-free bindings from Japan. And that kind of undercutting will not take place.

Senator ZORINSKY. Well, the point I am making is we have an initial market disadvantage inasmuch as we did boycott—or stop the shipment of soybeans to Japan at one time, losing the market then to Brazil. Now, actually these type of concessions are equal both for Brazil and this country with respect to shipping into Japan. So, are we still at a disadvantage in the market?

Ambassador WOLFF. Well, I think the Japanese regard us as reliable suppliers. They were obviously deeply shocked and pained at the embargo even though it did not result in shipments at a lesser rate ultimately. And we proved to be reliable suppliers even then. And I think they realize that, but it was painful and they began to look around to diversify sources of supply. And you know, if a country wishes to buy from a number of sources, we cannot prevent that. But we are not at a disadvantage.

In fact, a couple of weeks ago, as a result of the negotiations with the subsidies code, the Brazilians began to phase out almost all of their export subsidies, which they will do in the next couple of years. And they made the first cut. So, in fact, the disadvantage as a result of this negotiation—any disadvantage that we might have had is being eroded. We are coming up to par.

Senator ZORINSKY. Thank you.

Senator STONE. Senator Jepsen?

Senator JEPSEN. Mr. Ambassador, is it possible for you to briefly describe the specific procedure for levying countervailing duty?

Ambassador WOLFF. Yes. Upon the complaint of any person, the Treasury Department will provide an answer within—I must say we are now drafting this and we are drafting it in cooperation with this committee and with the Finance Committee starting March 6. So that the time limits are not all set, but within a limited period of time, maybe 30 days, the petitioner will have an answer. Is his complaint satisfactory?

Now in some cases, for example, a complaint against European restitutions, the subsidy numbers will be public information. It will not take a great deal to put together a petition. In other cases, where it is a subsidy in the form of cash grant or a loan to a firm in Japan, it may be rather obscure; it may be difficult to get the information.

So there will be varying degrees of difficulties in filing a petition. Agriculture tends to be a bit easier. They file a petition; it goes to the U.S. Trade Commission for an injury finding; it goes to the Secretary of the Treasury for a determination of the amount of bounty of grant.

Within 6 months now, under the new law it may be 3 or 4 months, there will be a preliminary finding of whether there is a bounty or grant; whether there is a subsidy that can be offset under our laws. And then a bond or cash deposit will be required immediately in terms of the amount of the subsidy.

Within a limited period of time—now 6 months, probably 3 or 4 months thereafter—countervailing duties will be levied.

So it will be a compression of the period for response. It will be a rather fast track that we have never had in our law. And in some things it is easy; when sugar landed in Savannah, I think it was—

Senator STONE. That is the place.

Ambassador WOLFF. Within 3 weeks there was a countervailing duty levied. It is now outside a year; I think we will get down to about 8 or 9 months, maybe 8 months.

[NOTE: At this point the committee suspended its other business to consider the nomination of James H. Williams to be Deputy Secretary of Agriculture and a member of the Board of Directors of the Commodity Credit Corporation. These proceedings can be found in the hearing record entitled "Nomination of James H. Williams To Be Deputy Secretary of Agriculture," Thursday, February 22, 1979.]

MULTILATERAL TRADE NEGOTIATIONS BRIEFING—RESUMED

Senator STONE. Senator, why do you not proceed?

Senator JEPSEN. In the MTN, I do not quite understand how a record is to take place. Now it is submitted to Senate Agriculture. First of all, are all countries involved? Is China involved?

Ambassador WOLFF. No. There are 98 countries involved. That does not include the U.S.S.R. and China—either China, Taiwan, or the People's Republic of China.

Senator JEPSEN. This does not include either one? I heard you say that we made some agreements with Taiwan.

Ambassador WOLFF. We did in parallel with these negotiations. Taiwan has not been a participant in Geneva. But what we have agreed with Taiwan and we did this the last week in December of 1978—we agreed that we would apply these agreements to Taiwan and we would give them certain product concessions; they would give us certain product concessions and they would apply the Geneva agreements to us.

So it is pending ratification by the Congress of our package, but once that is in place Taiwan and the United States will apply vis-a-vis each other all of these agreements.

Senator STONE. Would you give us some written confirmation or verification of that arrangement to the committee?

Ambassador WOLFF. Yes.

Senator STONE. Thank you, Mr. Ambassador.

Senator HELMS. I would like in that, if you will, Mr. Ambassador, to specify who represented Taiwan in an official capacity.

Senator STONE. And who represented the United States.

Senator HELMS. Yes.

[The following information was received by the committee:]

THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS,
Washington, December 29, 1978.

POLITICAL VICE MINISTER YI-TING WONG,
Ministry of Economic Affairs,
Taipei, Taiwan,
Republic of China.

EXCELLENCY: I have the honor to refer to recent discussions concerning our bilateral trade. During those discussions, it was noted that we expect to implement agreements resulting from the Tokyo Round trade negotiations that will benefit your exports, and it was agreed that in consideration of these concessions you will implement measures that will benefit our exports. This letter describes these reciprocal actions more fully.

We expect to include among our Tokyo Round concessions and to implement domestically, on a most-favored-nation basis, tariff concessions that have been discussed between us and that will benefit your exports. We further expect to extend to your exports the benefits of several non-tariff agreements that we may enter into in the Tokyo Round, including agreements on subsidies and countervailing duties, customs valuation, licensing, government procurement, commercial counterfeiting, and technical barriers to trade.

In consideration of the implementation of the above actions on our part, we understand that you will implement the tariff and non-tariff concessions listed in Annexes I and II to this letter, at the same time that we implement our measures described above. We further understand that you will observe obligations substantially the same as those applicable to developing countries set forth in non-tariff agreements concluded in the Tokyo Round, including agreements on subsidies and countervailing duties, customs evaluation, licensing, government procurement, commercial counterfeiting, and technical barriers to trade. It is understood that neither your concessions nor ours will be nullified or impaired by actions inconsistent with the provisions of the General Agreement on Tariffs and Trade or the agreements referred to above.

We acknowledge that you and we will continue to grant most-favored nation treatment to each other's products.

We are confident that amicable adjustments will be made if necessary to ensure that the bilateral undertakings described in these letters remain appropriately balanced. We understand that only those articles for which you supplied ten percent or more of total U.S. imports in 1976 will be considered in establishing the initial bilateral balance. Thereafter, each side shall have the same rights as those of a GATT Contracting Party with respect to articles referred to in this exchange of letters for which it becomes, or ceases to be, a principal or substantial supplier. Every effort will be made to consult through appropriate channels on any trade matters including those covered by this letter.

It is further understood that both sides will consider favorably incorporating matters covered by this letter into other arrangements at an appropriate time.

Accept, Excellency, renewed assurances of my highest esteem.

Sincerely,

ROBERT S. STRAUSS.

EMBASSY OF THE REPUBLIC OF CHINA,
Washington, D.C., December 29, 1978.

Ambassador ROBERT S. STRAUSS,
Special Representative for Trade Negotiations,
Executive Office of the President,
Washington, D.C.

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's letter of today's date, which reads as follows:

"EXCELLENCY:

"I have the honor to refer to recent discussions concerning our bilateral trade. During those discussions, it was noted that we expect to implement agreements resulting from the Tokyo Round trade negotiations that will benefit your exports, and it was agreed that in consideration of these concessions you will implement measures that will benefit our exports. This letter describes these reciprocal actions more fully.

"We expect to include among our Tokyo Round concessions and to implement domestically, on a most-favored-nation basis, tariff concessions that have been

discussed between us and that will benefit your exports. We further expect to extend to your exports the benefits of several non-tariff agreements that we may enter into in the Tokyo Round, including agreements on subsidies and countervailing duties, customs valuation, licensing, government procurement, commercial counterfeiting, and technical barriers to trade.

"In consideration of the implementation of the above actions on our part, we understand that you will implement the tariff and non-tariff concessions listed in Annexes I and II to this letter, at the same time that we implement our measures described above. We further understand that you will observe obligations substantially the same as those applicable to developing countries set forth in non-tariff agreements concluded in the Tokyo Round, including agreements on subsidies and countervailing duties, customs valuation, licensing, government procurement, commercial counterfeiting, and technical barriers to trade. It is understood that neither your concessions nor ours will be nullified or impaired by actions inconsistent with the provisions of the General Agreement on Tariffs and Trade or the agreements referred to above.

"We acknowledge that you and we will continue to grant most-favored-nation treatment to each other's products.

"We are confident that amicable adjustments will be made if necessary to ensure that the bilateral undertakings described in these letters remain appropriately balanced. We understand that only those articles for which you supplied ten percent or more of total U.S. imports in 1976 will be considered in establishing the initial bilateral balance. Thereafter, each side shall have the same rights as those of a GATT Contracting Party with respect to articles referred to in this exchange of letters for which it becomes, or ceases to be, a principal or substantial supplier. Every effort will be made to consult through appropriate channels on any trade matters including those covered by this letter.

"It is further understood that both sides will consider favorably incorporating matters covered by this letter into other arrangements at an appropriate time.

"Accept, Excellency, renewed assurances of my highest esteem.

"Sincerely,

(Signed) "ROBERT S. STRAUSS".

I have the further honor to inform you, on behalf of the Government of the Republic of China, that it concurs with the contents of your letter.

Please accept, Excellency, the renewed assurances of my highest esteem.

Sincerely,

YI-TING WONG,
*Political Vice Minister,
Ministry of Economic Affairs.*

Senator STONE. Thank you, Mr. Ambassador.

Are there any further questions for Ambassador Wolff?

Thank you very much for enlightening the committee.

Ambassador WOLFF. Thank you for the opportunity.

Senator STONE. And we appreciate your good work, too.

I call Mr. Thomas R. Saylor, Associate Administrator of the Foreign Agricultural Service, USDA.

Welcome to the committee, Mr. Saylor. You are going to tell us about the negotiations regarding the wheat agreement.

**STATEMENT OF THOMAS R. SAYLOR, ASSOCIATE ADMINISTRATOR,
FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF
AGRICULTURE**

Mr. SAYLOR. Thank you, Mr. Chairman.

After listening to the going successes of the MTN, I am afraid that I have to come before the committee with less than successful results on wheat negotiations.

I know that many members of this committee were very actively involved in one capacity or another in the World Food Conference, from which the negotiations on wheat really evolved. It was Jan-

uary of 1975 that the International Wheat Council first started preparations for a new wheat agreement.

However, these negotiations were dormant for a period of about 1½ years, until June of 1977 when the United States put forward a new proposal that was able to instill some momentum in these negotiations.

Since June of 1977, we have been engaged in numerous preparatory groups, trying to prepare a new wheat agreement. We have had three sessions of an UNCTAD conference to negotiate a wheat agreement, and I have been told that we have had about 50 weeks of sessions since January of 1975 to accomplish this goal. For my own part, I have not seen very much of the United States over the past 2 years; therefore, I can attest to the time involved and the efforts that we have devoted toward trying to come forward with a successful agreement.

I would like to take a couple of minutes to describe what we were trying to accomplish, and if there is interest, I would be glad to go into more detail; but if I can give a broad brush of exactly what we were trying to achieve in Geneva, I could address it in greater specificity later.

Unlike past agreements which were based upon fixed price obligations, with the exception of the 1971 arrangement which was simply a cooperation agreement without economic provisions, we were trying to achieve cooperative action at the extremes of the price range.

In other words, we were attempting stability, but rather than through fixing the price, we were trying to base the agreement upon, cooperative actions, whereby nations would undertake stockpiling production and consumption adjustments, and other means by which the underlying supply and demand imbalance could be corrected.

I think this is a pretty important point because very early in the negotiations the United States made it clear that we would oppose any sort of fixed price commitments, feeling that the United States had lost in the past as a result of those type of commitments, and that we should seek an agreement that was based more on burden sharing than on paper commitments with respect to market prices.

The core of the whole arrangement was a stockpile, nationally held but internationally coordinated stocks of some 30 millions tons. The price range that we were talking about—and by this I mean the point at which we would begin to intervene in the marketplace to try to stabilize prices at the lower end or the upper end was \$3 to \$5 at the U.S. farm.

Now why, despite extensive efforts, were we unable to get agreement on these various provisions although we went quite a distance in terms of agreement on the mechanism itself? Negotiations primarily failed over the figures, the specific figures that would be undertaken with respect to cooperative action.

With respect to the price range that we were putting forth, we did have agreement on the part of the developed countries with the exception of Japan, but the developing countries viewed the price range, the entire price range to be somewhat high and we were not able to reach agreement before the conclusion of the conference.

I think the second point of note is the stock size. Obviously, to reach 30 million tons requires that a number of countries have to come forward with substantial contributions. We were unable to reach 30 million tons; in fact, by the end of the conference we were really only in the 20-million-ton range. Our feeling was that a stock size which was inadequate would do more to inhibit future cooperation than provide effective stabilization.

Therefore, the second point over which the negotiations broke down was inadequate stock size.

I think the third area of difficulty in this last session was the special provisions for developing countries. Unlike past agreements, which had been primarily commercially oriented, the developing countries viewed the present negotiations, the present attempt to negotiate a wheat agreement, as an opportunity to build in various aid mechanisms as a part of the international wheat agreement.

Senator STONE. Would you also comment on the corn relationship to this?

Mr. SAYLOR. Certainly. One of the areas also in addition to wheat over which we had extensive discussions was related to coarse grains. The European Community primarily was interested in negotiating a similar stabilization arrangement for wheat. The United States felt from our own standpoint, given the predominance that we play in world coarse grains trade that there was little need or desirability for a special mechanism for burden sharing to make formalized commitments relating to coarse grains. We did, however, agree to various consultative provisions of the coarse grains, that had the wheat agreement been completed, would have been forwarded to the Congress with the wheat agreement.

Finally, the developing countries were seeking a special fund by which their stockholding obligations would be paid for by the developed members. On this issue, the United States was unable to provide any positive assurance to developing countries that we would support additional funding as a part of the wheat agreement, and, therefore, we found that on this issue as well we were unable to reach agreement with the developing countries.

I have been asked since returning if there was a general reason for the breakdown of negotiations this last session, what factors would you point to. Very frankly, I think that the most significant factor was the difference in market outlook on the part of several major parties.

I think from the standpoint of the United States, from the standpoint of a number of producing countries and even certain consuming countries, we view that over the intermediate and longer term there is basically a strong, a bullish market for wheat; that the potential for greater variability in wheat markets is significant and, therefore, it makes some sense to talk about cooperation at both ends of the price range so that we have a bit better balance in the situation of stress in world markets.

I think, however, a number of countries, particularly in developing importing countries had a less bullish outlook on the market situation. In the situation of significant world supply, I think that the enthusiasm to negotiate commitments on stabilization was significantly dampened, and as a result I think that many countries' view was

that we were going to return to a situation of chronic oversupply and low prices. I think that more than anything affected their posture in the negotiations.

Where do we go from here? I would like to take a couple of minutes to talk briefly about some of the things that we have been doing. First of all, we have made it clear that we would be willing to go back to the table, if and when there is the political will to complete an agreement, but as we have indicated to our trading partners, there are parameters that we feel are essential in order to have an agreement: one, that is economically workable; and two, that fits within the basic interest of our own producers if we are to go back to the table.

At the present time, I cannot be very optimistic that there will actually be a session in the near future. There is no indication from my standpoint that the various attitudes that led to the failure of the conference to reach agreement have changed.

But in the absence of a more ambitious agreement, it is our intention to go forward with an extension of the present arrangements. I think all trading countries view the machinery of the International Wheat Council, the opportunity to exchange information to be useful, and certainly as a lowest common denominator it would be our intention to seek an extension of the present arrangement.

Beyond that, I think there are some other opportunities which we are currently in the process of exploring. I think perhaps one of the most useful side effects of the wheat negotiations was the cooperation built up among major trading countries. We had extensive meetings with these other exporting countries and certainly some of the importing countries. I think that out of that a dialog has been established which could be used to perhaps build a bit better cooperation—less formalized cooperation in the absence of a more comprehensive wheat agreement.

I think that we want to look very carefully at exactly the type of cooperation that would be useful. I think that we are skeptical that we could benefit from an agreement that would be based upon direct price manipulation or allocation of market shares.

I say that because we—our experience in the past with fixed prices has shown that it has been very difficult or impossible to enforce such prices, given the complicated mechanics of world trade; rate differentials, quality differentials, credit facilities all have led to a situation where it felt the United States had less flexibility to respond to some of the competitive practices of other countries. I think that we also know now that we do not have the machinery in the United States to enforce trading prices, should we return to a situation where it was being desirable to fix prices at which wheat is traded.

During the 1960's, we did have an export subsidy in place through which we were able to have some influence over prices, but we no longer have that machinery in place at the present time.

I think also there has been a suggestion that the United States could come forward with raising its loan rate. Obviously, this would have an impact on world prices, but the impact would be at the cost of our own producers and taxpayers, we feel, in terms of loss in market share and increasing revenues. By raising our loan rate, of course, we become the intervention agency for the world. We agree to take—the U.S. Government will take on wheat at the loan rate on an unlimited basis.

Very frankly, we know of no commitment on the part of our trading partners which would be equivalent to such a commitment on the part of the United States.

I think we are also somewhat concerned that direct price manipulation is likely to be, of course, dependent on the level of price, but also has a relationship to our competitiveness in the international marketplace from the standpoint of nontraditional suppliers.

Should a small group of countries get together to manipulate the prices in such a way that nontraditional suppliers could take advantage of that, I think that we see certainly the opportunity for such nontraditional suppliers to play a more active role in the international marketplace.

Finally, I would like to point out that an attempt to allocate market share we feel would also be to the disadvantage of our own producers. I think that the history of the recent past is fairly clear, that whenever there has been a strong market, it has been the United States that gained from that market.

Back during the 1960's, we were able to enjoy a 30- to 35-percent market share; but during the years in which we did have a few years of a strong market, our market share increased significantly from 40 to 45 percent. I think that we feel that given the growth, the opportunity for growth, in world wheat trade that it is to our advantage not to lock in market shares, but to permit the United States to compete for the increased share that we are able to deliver on by virtue of our size and our particular role in world wheat trade.

As I say, we are looking for common denominators in terms of cooperation. I think that there is the opportunity for increased cooperation from the standpoint of production and marketing policies, from inventory policies. I see a noteworthy change in the attitude of many of our trading partners over these recent negotiations from that that they have taken in previous negotiations. I think if we were returning to a situation of chronic oversupply, there is very little that we could encourage our trading partners to undertake.

But I think that all of us feel that there is a strong market for wheat over the longer term, and that, given that market, it makes some sense to coordinate our policies so that we do not undermine the market in the short term to the detriment of all of this over the longer term.

I think in the coming months we will make an effort to get together major trading countries, to see on the basis of what we have accomplished throughout the wheat negotiations, on the basis of the principles of burden sharing, what we could do on an informal basis.

I think at the very least there is an opportunity for some increased cooperation in this area, but of course it will depend on the attitude of the other major wheat-trading nations.

From our own standpoint, we are already undertaking very significant adjustment actions in the United States. We are holding very large stocks, 11 million tons of wheat; we are cutting back acreage. I think a starting point in terms of cooperation would be what additional could we expect from the standpoint of adjustment that our trading partners would undertake.

We are interested in cooperating, but we view cooperation as necessarily a two-way street.

I hope that is helpful of giving you an idea of where we have been and what we are thinking about in terms of the future for world wheat. We are disappointed that we were unable to complete our negotiations, but our commitment remains, and if and when there is an opportunity to come back to the table, we are fully prepared to negotiate in good faith to complete an agreement.

Senator STONE. Thank you. Senator Helms?

Senator HELMS. Thank you, Mr. Chairman.

What is the distinction that you would draw between the wheat agreement and the international food cartel?

Mr. S. BOR. Well, I think a cartel, of course, can mean a lot of different things. I think a cartel has been used in current terms more as a price-fixing or price-setting mechanism whereby the major producers get together and attempt to control the price by controlling the supply.

The wheat agreement we would see for providing for broader cooperation. I think the difference in approach between what has been talked about in terms of a cartel and the wheat agreement is that in the wheat agreement we are trying to get at the underlying policies of supply and balance. If there is too much wheat around, we should get other countries to help absorb some of that, hold back some of the wheat.

We think that that is the only way you can have an impact on prices. Any price agreement is not going to last very long if the price level is way out of line with the market situation and the actual supply levels that are available to the market.

Senator HELMS. But one of your goals is to keep the price of wheat at a realistic level for those who produce it. So to that extent, it does identify with my definition of a cartel.

Mr. SAYLOR. That is right.

Senator HELMS. Mr. Chairman, I do not have anything further.

Senator STONE. Senator Boren?

Senator BOREN. Mr. Saylor, if you had a cartel proposal, wouldn't you be dealing with fewer nations than you are trying to deal with in terms of an international wheat agreement?

Mr. SAYLOR. Well, it depends on what specifically we would be attempting to achieve. The type of cooperation I am talking about is one that would be open to any country that wanted to participate. If a country wants to voluntarily participate in production adjustments or inventory adjustments, we would certainly be willing to permit them to cooperate with us.

Senator BOREN. But could you not with a relatively small number of countries pretty well effectively have an impact upon the price in terms of the number of countries that produce very high percentages of wheat which is moving in the world markets?

Mr. SAYLOR. In the short term there is no question that the United States, Canada, Australia, and Argentina, which account for about 85 percent of the wheat moving in world trade, could have a pretty significant impact on prices, based on their production and supply management policies.

Senator BOREN. You have talked about optimism about the long-term market picture in terms of perhaps bringing the supply into balance. You indicated that you did not think we were in a long-term picture of oversupply.

You indicated that differences among the developing nations caused the breakdown of the current negotiations.

Why would it not be in our interest to attempt to move toward a partial cartel or at least much tighter agreements with a few major wheat-producing countries in terms of trying to have a strong impact upon the price? What would be the dangers in moving toward that kind of an arrangement? Why should not the United States take the initiative in pursuing such agreements?

Mr. SAYLOR. I think that in a sense is what we are attempting to do. Now I am cautious from the standpoint of referring to it as a cartel, because a cartel has a very specific connotation. I think what we will be doing is seeking cooperation from the other exporters and other trading nations that are interested to try to undertake actions which would strengthen the price in a low-price situation, and would have a stabilization effect at the other end of the marketing range in a tight supply situation.

But our caution is that we want to make sure that there is a willingness on the part of other countries to do something additional, rather than the presumption that the United States is going to pick up the major share of the adjustment burden.

Senator BOREN. Have other major producing nations, Australia and Canada and others, developed substantial storage capacities or are they still far below what would be necessary to carry their share and then set their own movement in that direction?

Mr. SAYLOR. I think from the standpoint of the other exporters they all have adequate storage capabilities to undertake these type of commitments. In fact, in the current year, given the unusual supply situation, Australia, the European Community and Canada, they are all going to be carrying very large inventories out in any case simply because they cannot move it on the world markets.

Senator BOREN. Thank you.

Senator STONE. Senator Hayakawa?

Senator HAYAKAWA. There is one background question I would like to ask about the negotiations for an international wheat agreement. When were these meetings, the negotiations of these agreements and who took part?

Mr. SAYLOR. When were the—excuse me, Senator?

Senator HAYAKAWA. These negotiations for a new international wheat agreement, where did they take place and when?

Mr. SAYLOR. Well, the negotiations began in January of 1975 under the auspices of the International Wheat Council in London. The Wheat Council met for about 18 months, making very little progress.

In June of 1976 the United States put forward a new proposal, which sort of got the negotiations off the ground. In February—

Senator HAYAKAWA. This is a continuing process then?

Mr. SAYLOR. That is right. There were extensive preparations. We actually—it was not until February of 1977 that the conference had moved to Geneva.

Senator HAYAKAWA. It started where, in London?

Mr. SAYLOR. It started in London under the Wheat Council and it was then moved to Geneva under the United Nations Conference on Trade and Development. And from that time, most of the negotiations took place in Geneva.

Senator HAYAKAWA. And this is what you are reporting now, this lack of success?

Mr. SAYLOR. In the last round that ended 2 weeks ago.

Senator HAYAKAWA. Ended 2 weeks ago in Geneva?

Mr. SAYLOR. That is right.

Senator HAYAKAWA. I see. And what nations were represented?

Mr. SAYLOR. There were about, I believe, 60 different countries represented, but of those countries about 15 played a very active role.

Senator ZORINSKY. I would like to ask a question: Can you give any reason why the other countries should want to make an agreement since they have an economic advantage on cost of production in wheat? What reason is there for them to want a wheat agreement with the United States?

Mr. SAYLOR. Well, there are a couple of reasons. One is that I think that even given the fact that the United States has in the past taken on the major adjustment burden through stockholding, through production controls, some countries and some leaders in certain countries see much greater variability in the years ahead.

And they are willing to buy some protection or help support the price at the low end in order for some protection at the upper end. And, of course, one of the arguments that we made very strongly in the negotiations is that a security of supply or having supplies in a classified situation means having stable production in a low-price situation.

Senator ZORINSKY. Well, is it your opinion that they are holding as much grain as we are in storage facilities relative to their production capacity?

Mr. SAYLOR. Percentagewise the United States is carrying the predominant share of world carryout stocks. We have a world carryout of wheat of, I believe, 104 million metric tons, of which the United States has turned out 30. But among the major exporters, I think that we probably account for what—50 percent of the stocks.

Senator ZORINSKY. Well, if they can hold their grain in storage and utilize it, as I am sure they have in the past, to manipulate prices worldwide, why would they want to give up that advantage? It is a matter of pure simple economics that when you have an economic advantage over someone you do business with or are in competition with, why would you want to equalize that situation?

The way I have always been able, as a businessman, to get my competition to come to the table to say, "Ed, let us sit down and resolve our problems" is for me to be more competitive than my competition. And that instantaneously seems to draw people to you to want to talk about agreements.

I think we have passively sat back through the years while our agriculture suffered from our inability to do exactly that—that is to bring those people to the table. Economics is the only thing that seems to get their attention.

Mr. SAYLOR. Senator, I very much agree with you, but that factor has not been lost. I think it has been clear that one of the reasons that countries have been willing to talk is the fear that the United States, through its own marketing and production policies, can have such an overwhelming impact on world markets.

And the uncertainty—there is a reasonable degree of uncertainty in those policies and I think that has led our competitors to seriously talk cooperation.

Senator ZORINSKY. Well, I feel that for too many years we have been coasting on the fear that we can do this or that without demonstrating that we actually mean to do it.

And I think every once in a while, at least once every decade, one has to demonstrate one's ability to act, otherwise, you wear out your presupposed ability to do the things that people are concerned about us doing.

I think it is going to eventually boil down to this country making a financial commitment to agriculture to the extent that it arouses the attention of other countries and forces them to come to us and say, "Stop doing this. Let us sit down and have an international wheat agreement."

I would hope that we will not coast on this fame that we have accumulated through the past so long that there is no one left to produce these items that we would like to have agreements upon.

Senator HAYAKAWA. I have a question. Is there a continuing staff then in Geneva, a permanent staff?

Mr. SAYLOR. Senator, we have our agricultural attaché that is permanently assigned to Geneva. And if and when there are meetings in Geneva that would require our representation, he would be responsible for that.

In addition, the International Wheat Council continues to have meetings on a semiannual basis. And at the next meeting that will take place in March, there will be considerable discussion about what we do from here.

Senator HAYAKAWA. I just want to understand this international organization which I was not aware of before. I just want to know how it operates.

It meets roughly twice a year?

Mr. SAYLOR. That is right.

Senator HAYAKAWA. Thank you.

Senator ZORINSKY. Do you have continuity, do you feel, despite the breaks? The reason I ask is that I was talking to a couple of members of Parliament from Canada, and they indicated that some of our people come and go. New faces show up, and as a matter of fact, sometimes they said that we have negotiators show up and then tell others, "You take over for me and let me know what happens."

This does not seem in the best interest of our country. Do you feel there is sufficient ongoing continuity?

Mr. SAYLOR. Certainly, in the wheat negotiations since June of 1976 I have had a good bit of continuity. I have led the delegation throughout that time. Assistant Secretary Hathaway has been in and out, but nevertheless we have had the same leadership involved over the time of these active negotiations.

Now, of course, it has been a problem over the longer term of changing administrations, new faces coming in and some lack of continuity there, but I do not think it has in any way hampered our effectiveness in the current round of negotiations.

Senator ZORINSKY. Thank you.

Mr. James Starkey, Assistant Special Trade Representative for Agriculture Affairs, USDA, and Turner Oyloe, Assistant Administrator for Commodity Programs, Foreign Agricultural Service, USDA.

Proceed.

STATEMENT OF JAMES STARKEY, ASSISTANT SPECIAL TRADE REPRESENTATIVE FOR AGRICULTURE AFFAIRS, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY TURNER OYLOE, ASSISTANT ADMINISTRATOR FOR COMMODITY PROGRAMS, FOREIGN AGRICULTURAL SERVICE

Mr. STARKEY. Senator, I think Ambassador Wolff covered the item of product concessions fairly comprehensively this morning. I would just like to go over a few things perhaps in a little more detail at this time.

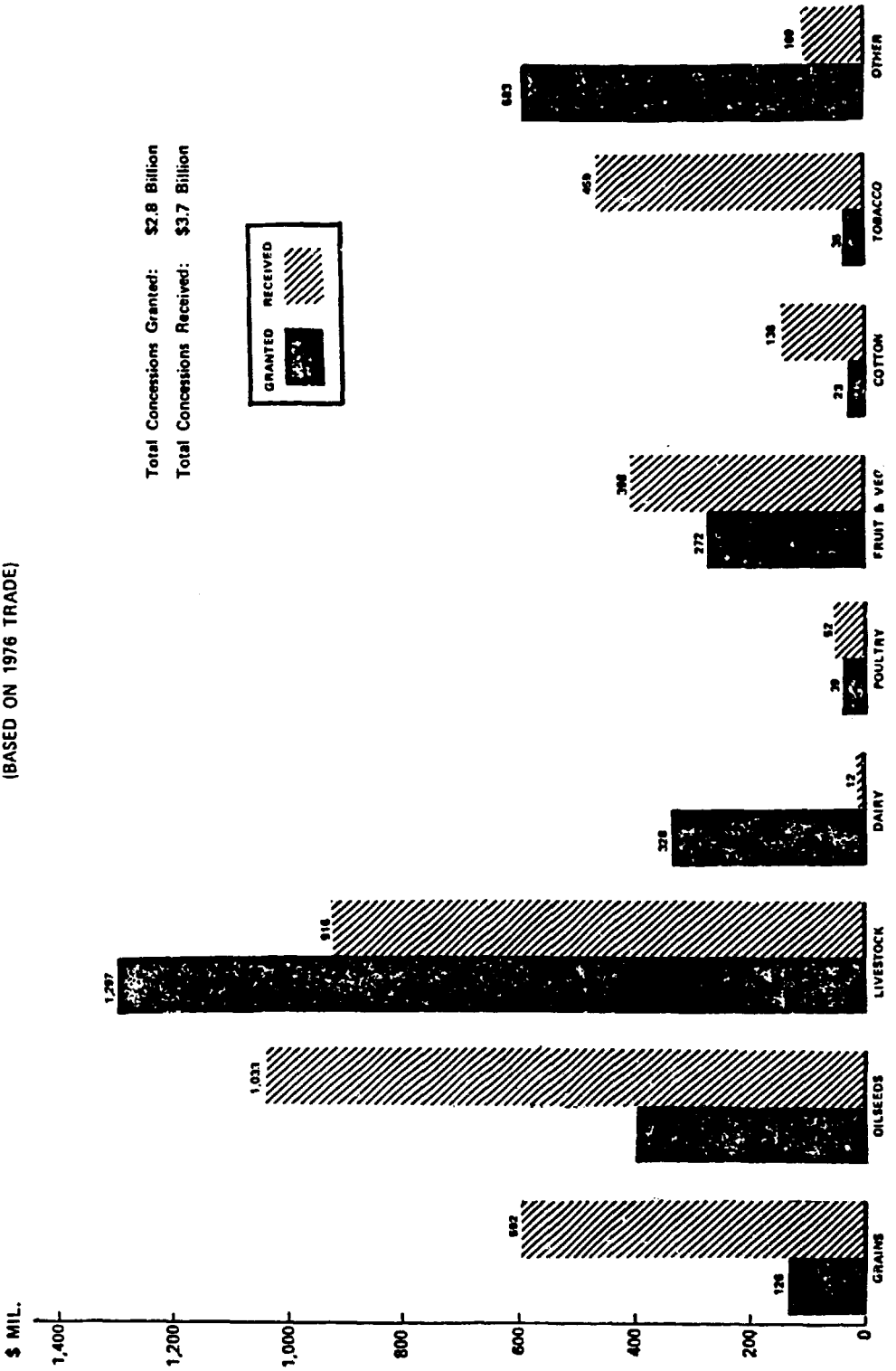
First, he characterized the concessions on the table as offers rather than concessions, and I think that is important because it reflects the fact that at this point in the negotiation they are still tentative. The European Community for its part has to approve the offers at the level of the Council of Ministers. There are some questions on the part of some countries as to whether they feel the balance is equitable at this point. Our own Congress has to approve the overall balance before this in the end becomes a deal.

But I think generally in terms of the concessions that we see on the table of benefit to American agriculture, they will cover around \$3.8 billion, plus or minus, I would guess, \$200 million at this point. In other words, we could either get additional concessions of another \$200 million, or we could perhaps, if some deals fall apart, lose concessions of \$200 million. But that side of it, I think, is pretty well set.

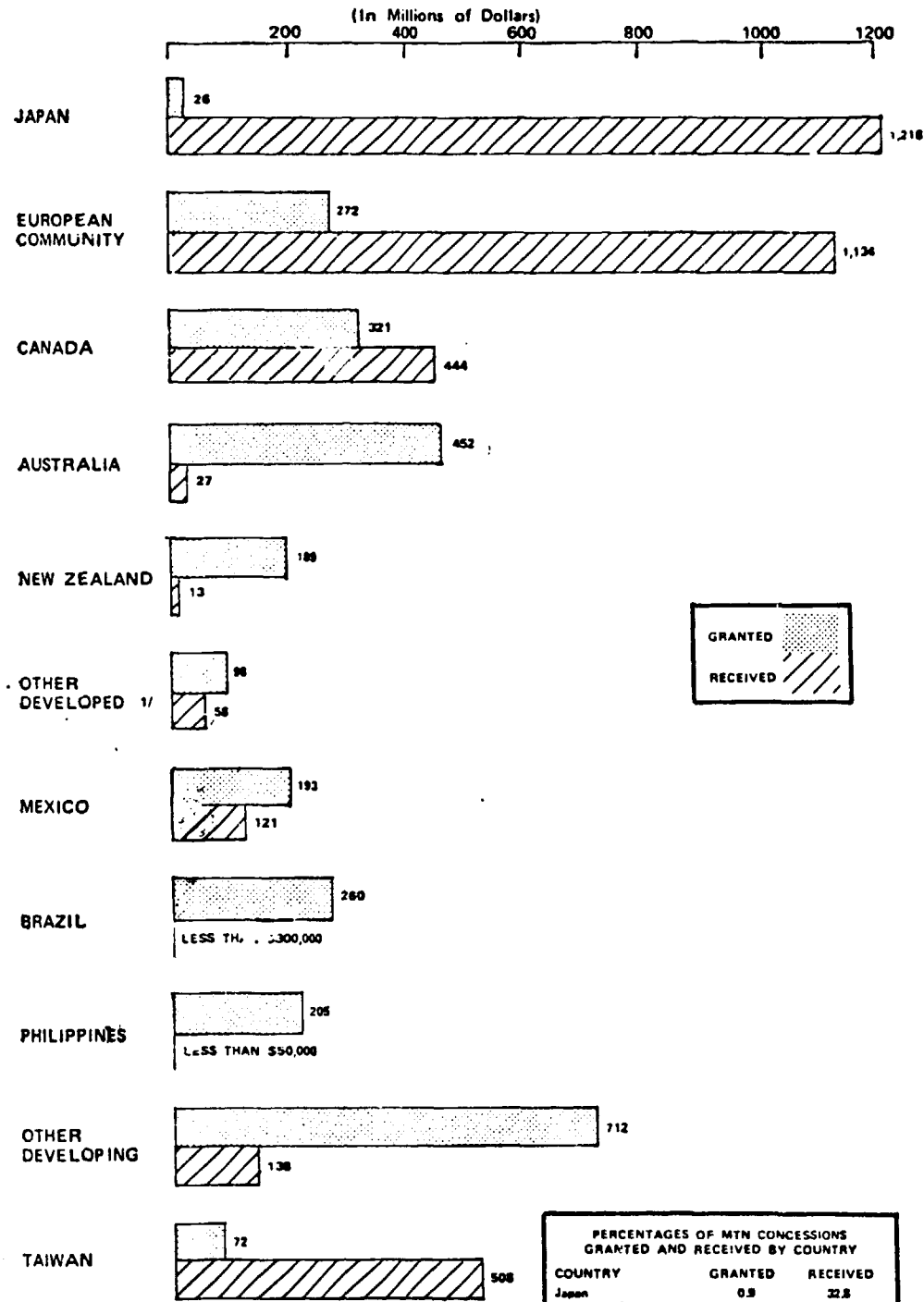
The U.S. offer side, of course, is even more tentative due to the structure of our trade. Our offers preponderantly benefit developing countries and for the most part deals with the developing countries are not yet closed. And in the event those deals are not closed, then we will be making withdrawals of offers that we had made. I would say that U.S. offers are in the range of \$3 billion at this time and that is really a maximum amount. It could actually end up \$1 billion less than that if indeed some of the negotiations with developing countries do not bear fruit at the end of the day.

I would like to draw your attention to the series of tables that was prepared by the Foreign Agricultural Service, by Dr. Oyloe here with me, that I think in schematic form gives an idea of how we see the negotiations today.

BALANCE OF MTN CONCESSIONS GRANTED AND RECEIVED, BY COMMODITY GROUP, ALL COUNTRIES
(BASED ON 1976 TRADE)

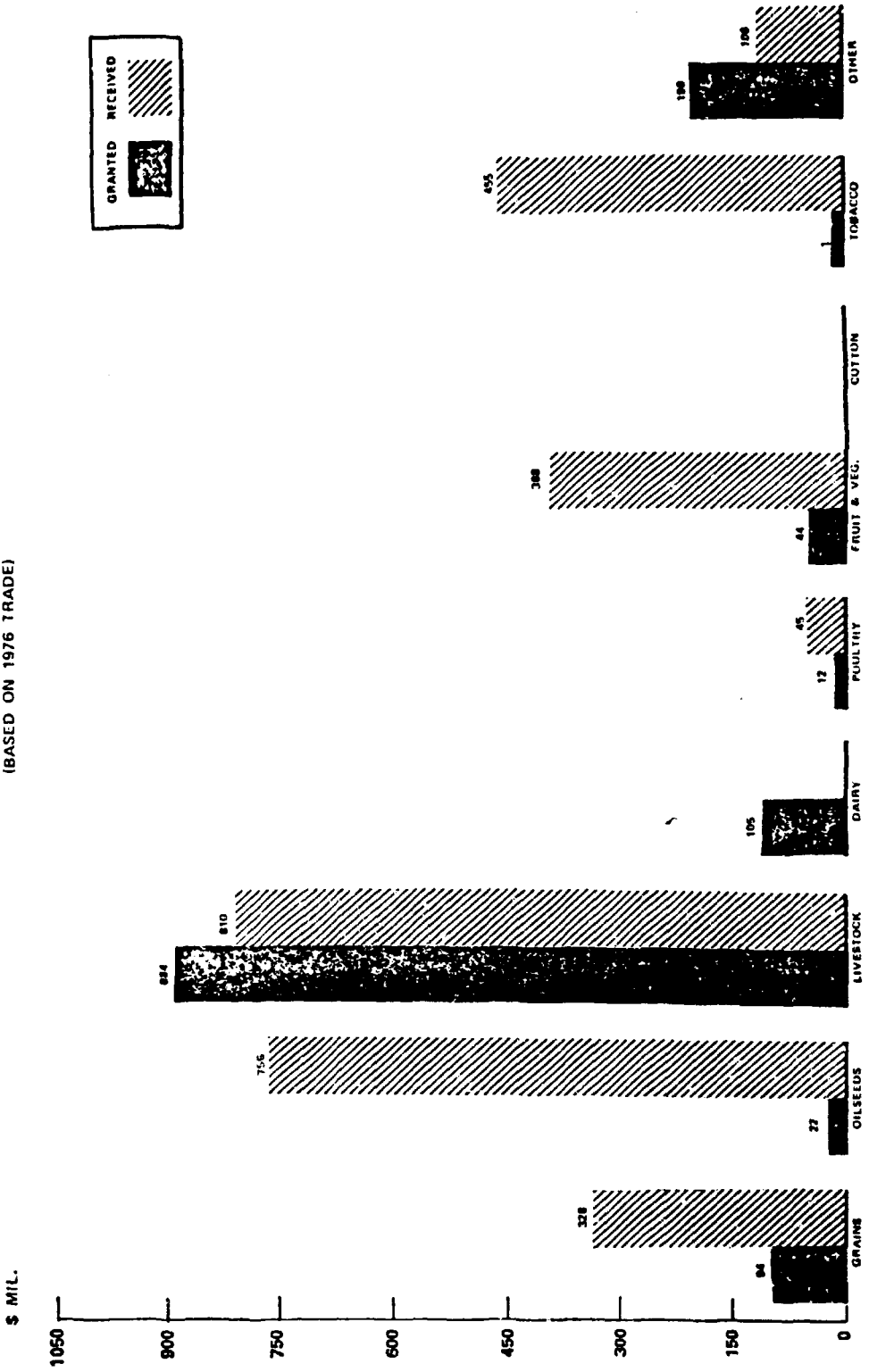


BALANCE OF MTN CONCESSIONS GRANTED AND RECEIVED, BY COUNTRY
(BASED ON 1976 TRADE)

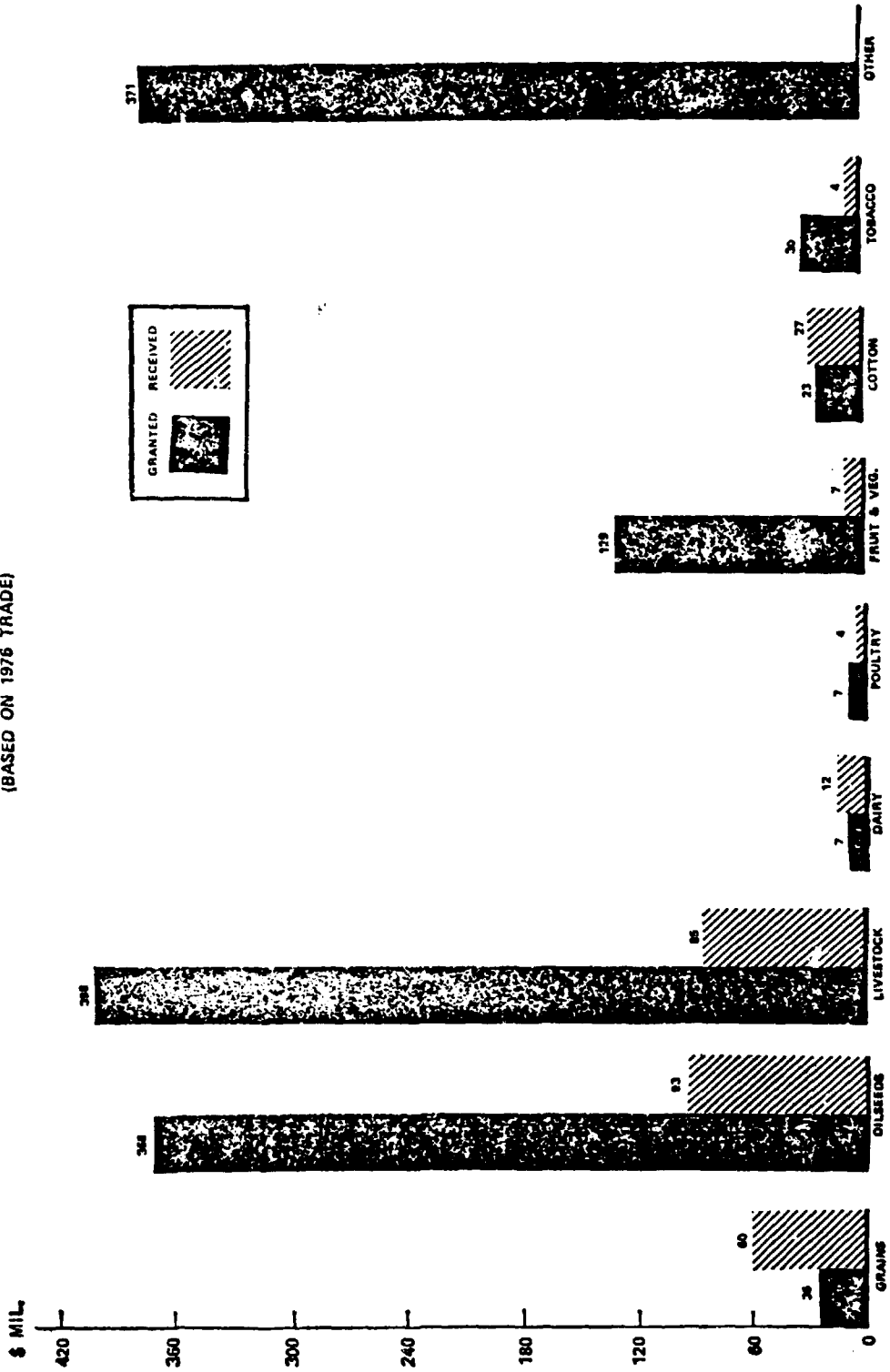


PERCENTAGES OF MTN CONCESSIONS GRANTED AND RECEIVED BY COUNTRY		
COUNTRY	GRANTED	RECEIVED
Japan	0.9	32.8
European Community	9.7	30.6
Canada	11.4	12.0
Australia	16.1	0.7
New Zealand	6.7	0.4
Other Developed	3.5	1.6
Mexico	6.9	3.3
Brazil	9.2	—
Philippines	7.3	—
Other Developing	25.3	3.7
Taiwan	2.6	13.7

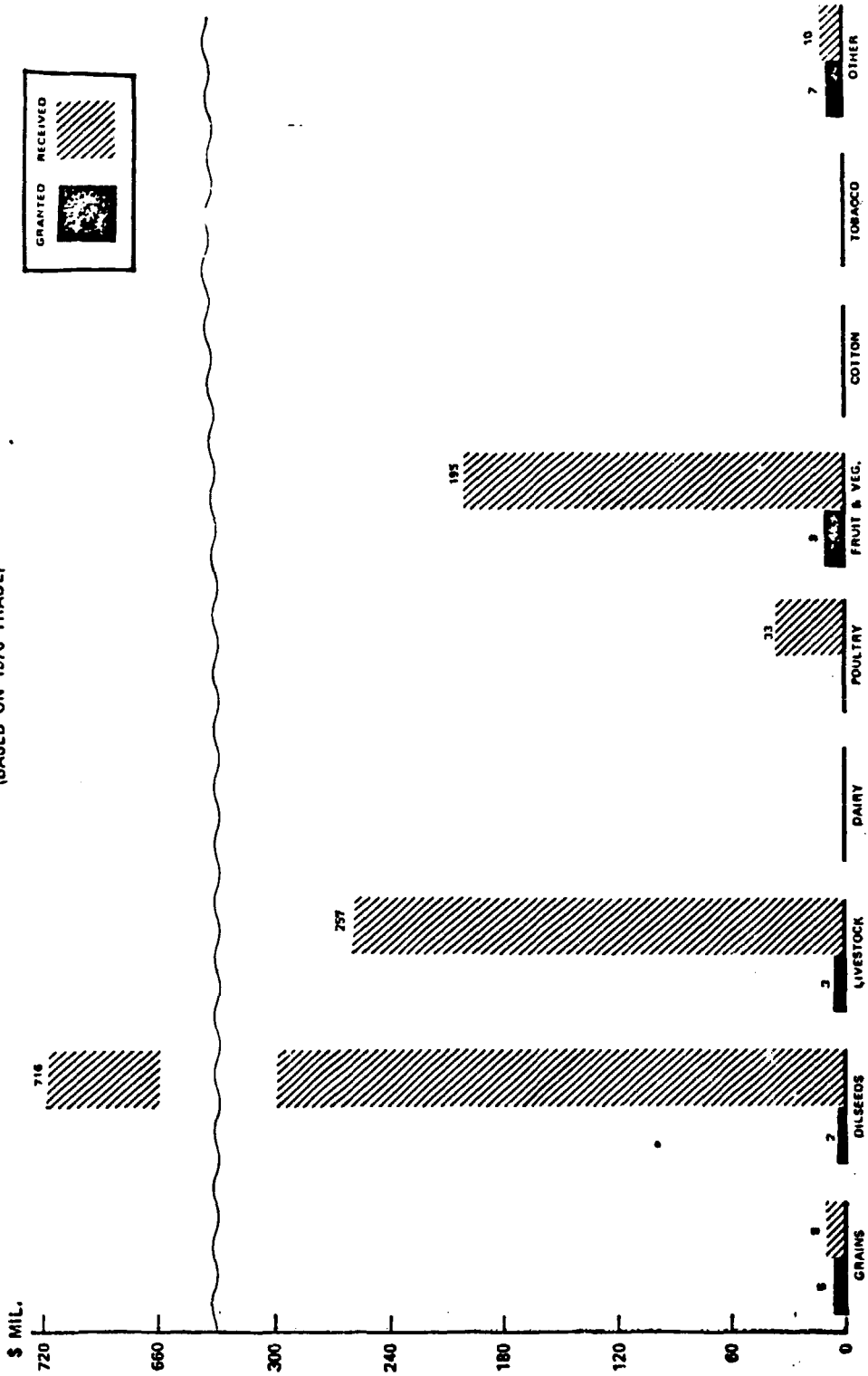
BALANCE OF MTN CONCESSIONS GRANTED AND RECEIVED, BY COMMODITY GROUP, DEVELOPED COUNTRIES
(BASED ON 1976 TRADE)



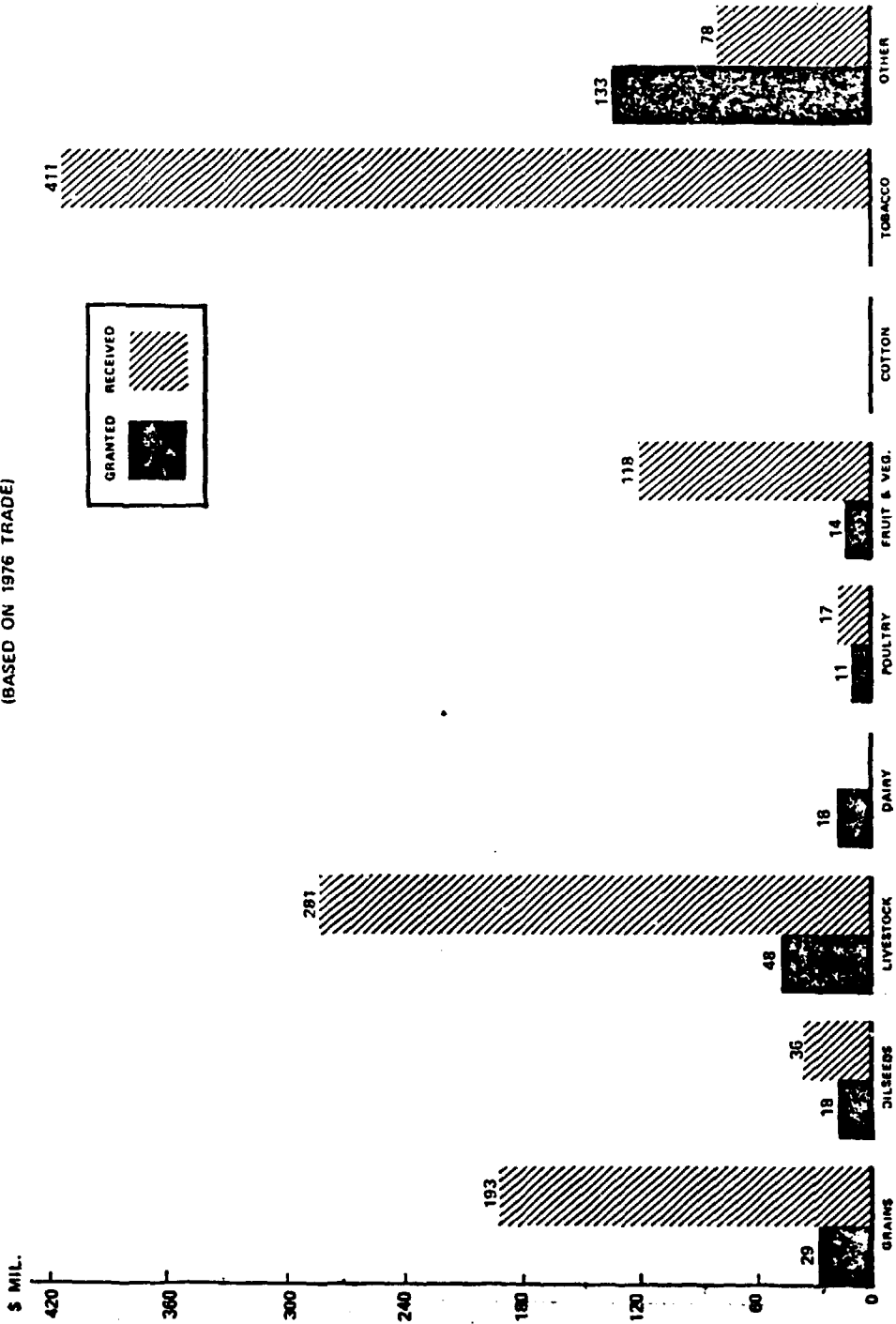
BALANCE OF MTN CONCESSIONS GRANTED AND RECEIVED, BY COMMODITY GROUP, DEVELOPING COUNTRIES
(BASED ON 1976 TRADE)



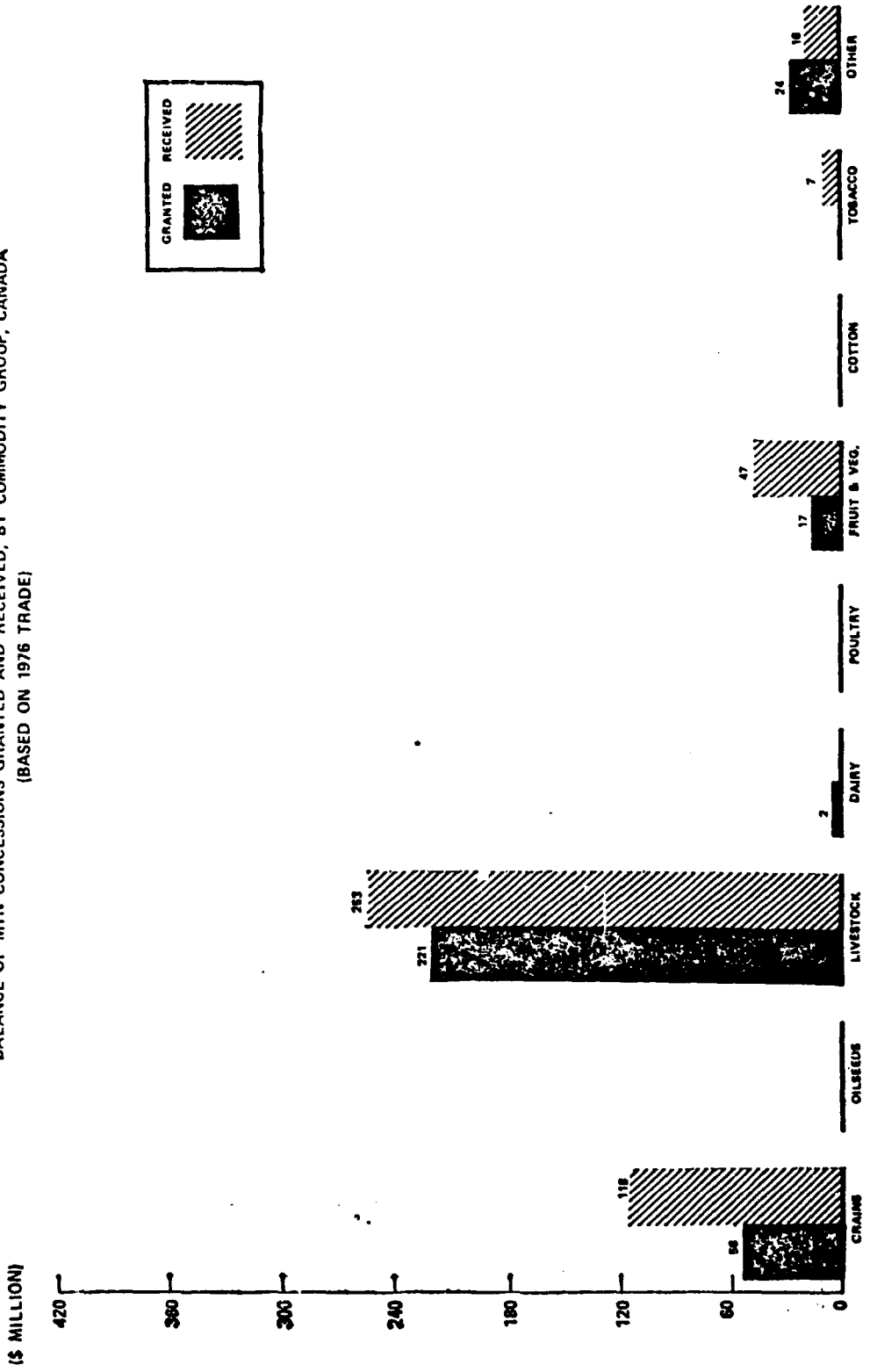
BALANCE OF MTN CONCESSIONS GRANTED AND RECEIVED, BY COMMODITY GROUP, JAPAN
(BASED ON 1976 TRADE)



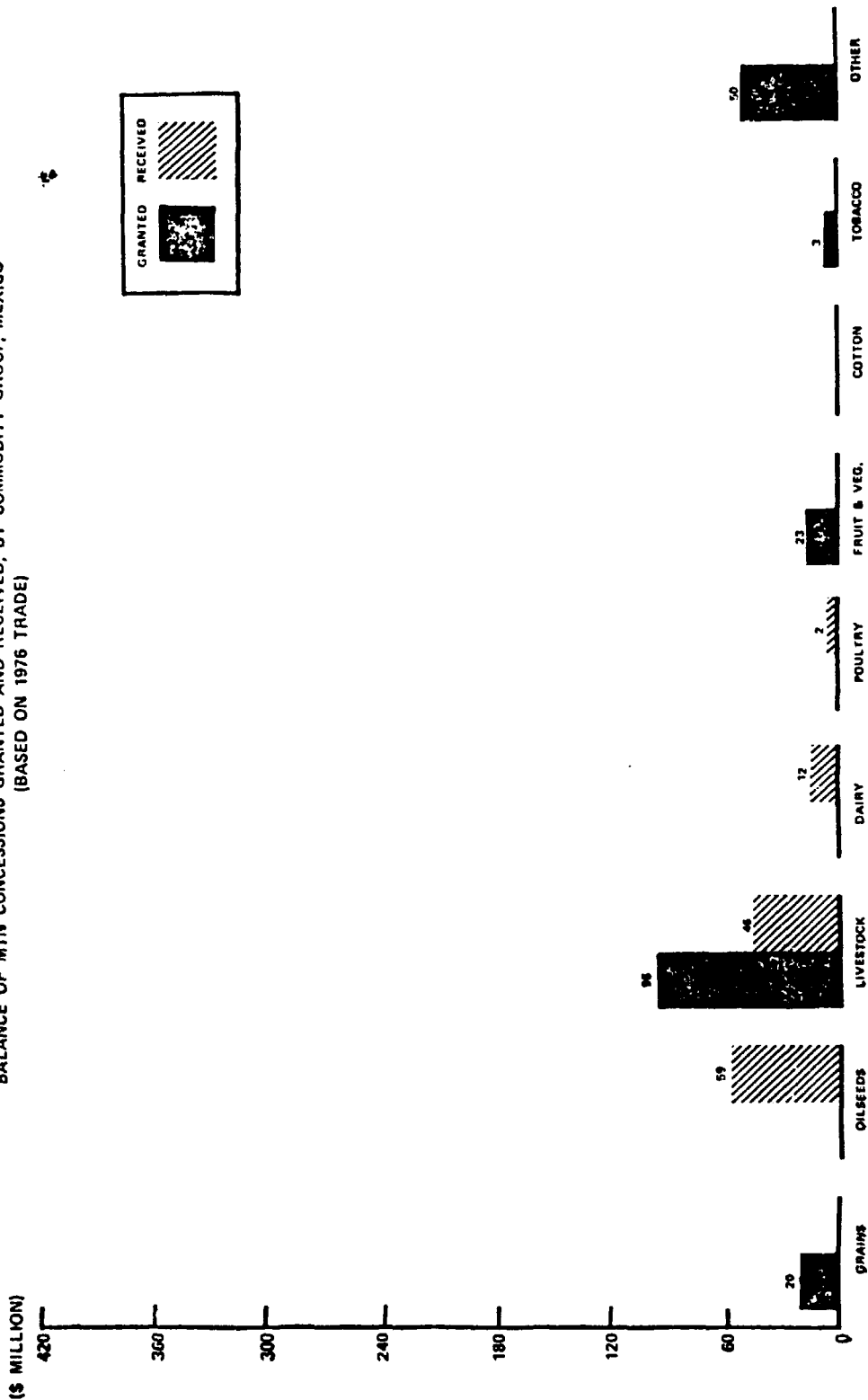
BALANCE OF MTN CONCESSIONS GRANTED AND RECEIVED, BY COMMODITY GROUP, EUROPEAN COMMUNITY
(BASED ON 1976 TRADE)



BALANCE OF MTN CONCESSIONS GRANTED AND RECEIVED, BY COMMODITY GROUP, CANADA
(BASED ON 1976 TRADE)



BALANCE OF MTN CONCESSIONS GRANTED AND RECEIVED, BY COMMODITY GROUP, MEXICO
(BASED ON 1976 TRADE)



Mr. STARKEY. The first table shows the balance of concessions granted and received on a country basis. And I think as you look through that table, you will see with respect, for example, to Japan, we are obtaining far more in agriculture than we are giving up. And that is, of course, natural because Japan is not an agricultural exporter.

The European Community balance is also very much in our favor; Canada the same. And then you get toward the middle of the table where you pick up Australia and New Zealand who are primarily agricultural exporters, and of course, the balance shifts the other way. Our concessions covering such products as lamb, beef, and wool, account for the bulk of the concessions those countries receive and, of course, we do not export much in the way of agricultural products to them. So the balance goes the other way.

All the way across to the developing countries again you see that we tend to import more from developing countries than we export to them. Taiwan, Ambassador Wolff pointed out earlier, is outside of the scope of the trade negotiations per se, but there was a parallel bilateral negotiation, and again the balance for American agriculture is heavily in our favor.

Moving onto the second table, we see the balance of concessions granted and received by commodity group on the basis of 1976 trade. And this again is talking into account all countries in the negotiations at this particular point.

Grains concessions are overwhelming in the favor of the United States—this reflects the duty reduction on corn in Canada, the significant change in the European Community's system on rice which will benefit about \$100 million of our trade, and a number of other concessions that Ambassador Wolff mentioned this morning on other grains and byproducts.

Oilseeds, the balance again in our favor; \$700 million of that is the duty-free binding on soybeans going into Japan, which is really protection against the future and, as Ambassador Wolff stated, is not expected in itself to result in additional trade. But, I still think it is an important concession.

In addition to that, there are substantial concessions in countries like Canada, the European Community on peanuts; Austria on meals; and then a whole host of countries on vegetable proteins. And a lot of the people in the industry think, that the vegetable protein area may be very much like the soybeans were 10 years ago. It is a product that is new, as was the case with soybeans 10 or 15 years ago when they were relatively unknown, but could be one of the real potential growth markets in the future. And we have put a lot of effort in this negotiation, into getting concessions for vegetable proteins in a whole host of countries.

Livestock, the U.S. offers exceed what we are obtaining on a trade coverage basis. The bulk of the U.S. offer is the reduction in the duty of 1 cent per pound on beef imported into the United States. As Ambassador Wolff pointed out, it is unlikely, given the fact that imports are more or less regulated by our Meat Import Act, that the reduction of 1 cent per pound in the duty will result in increased trade in and of itself.

On the other hand, on the export side we have concessions from Japan on high quality beef, from the Community on high quality

beef, plus a number of other concessions on beef byproducts, edible offals and tallow, which I think will result in substantial market possibilities in the future.

The balance in dairy, of course, reflects the fact that we are much larger dairy importers than we are exporters. The concessions that were obtained were on products such as condensed and evaporated milk in Mexico.

In poultry, the balance again is in the U.S. favor and reflects concessions by a number of countries. In the European Community, we achieved a solution to the outstanding chicken war which has been a thorn in all of our sides since 1962.

Fruit and vegetables, again the balance is heavily in the U.S. favor. On the offer side, we have a lot of question marks because potential offers would benefit by and large developing countries, and negotiations with countries such as Mexico and Brazil are not yet completed. But on the other side of the picture, we are pretty close to the total of the concessions that we expect to see in the fruit and vegetable area with two exceptions. We still have two requests of the very highest priority in the European Community on fresh oranges and on almonds, and we are still working very hard to obtain a response to those requests. And if those requests are granted, it would up the total of offers to the United States by approximately another \$100 million.

Cotton again is heavily in the U.S. favor; tobacco was discussed earlier with Ambassador Wolff. Concessions on these products are very meaningful and will result in significant export opportunities.

This other category is a kind of a cats and dogs of agricultural trade. It covers things—even some industrial products: rosins, turpentine, hormones, gelatins—a whole host of products.

As you go through the additional tables, you will see the balance by developed countries and by developing countries, and I think the structure of our trade is illustrated by the following two where you see that we are receiving concessions basically from developed countries at this point, and we have received requests or will be making concessions basically to developing countries because of the structure of our trade.

And then the final tables show what the bilateral balance looks like with specific countries in specific commodities.

As Ambassador Wolff indicated this morning, I think that both on a quantitative and qualitative basis the American agricultural community will be a substantial beneficiary of these negotiations.

I think that it is clear from this information that there will be meaningful benefits for agriculture, and the balance is very favorable in terms of the concessions that we will receive versus those that we will give up, assuming that the final deal all holds together as it looks like right now.

That is not to say that we have not had to make some concessions on some sensitive products, but I think that we have, through close consultation with our advisers, been able to keep those concessions on a reasonable basis and on a basis that strikes a balance between the requests of our trading partners and the need to be able to provide something in these negotiations as negotiating coinage, so to speak, and the needs of our domestic industry to be reasonably protected from unfair or inequitable competition.

Mr. Chairman, that is pretty much the balance in terms of products. I would be very happy to answer any specific questions anyone might have.

Senator ZORINSKY. Does Mr. Oyloe have any——]

Mr. OYLOE. I have no further comments.

Senator ZORINSKY. Senator Hayakawa, do you have any questions?

Senator HAYAKAWA. I think you mentioned almonds and citrus to the——

Mr. STARKEY. European Community; yes, sir.

Senator HAYAKAWA. What were you saying about that, please?

Mr. STARKEY. Those are two of our highest priority requests that the European Community has not yet responded to.

Senator HAYAKAWA. Have not responded?

Mr. STARKEY. They have not responded, other than to say that it looked very difficult if not impossible to make concessions in those areas.

We feel that it is extremely important to obtain concessions on those products at this time and are continuing to press very hard in those negotiations to obtain offers.

Senator HAYAKAWA. These are crops that are available in Europe, are they not?

Mr. STARKEY. Almonds are available, a small production in the southern part of Italy and more important production in Spain which is a very significant competitor of the United States. As you may know, Spain is going to become part of the European Community and we, of course, are concerned that we will be the only major producer of almonds that is outside that preferential block at that point. And that is why we are putting so much effort into getting that duty reduced at the present time.

As far as citrus is concerned, there is production of oranges in Italy. The Italians feel very strongly that any further tariff reductions would result in increased competition and they have resisted very strongly.

Senator HAYAKAWA. Mostly from Italy in that respect?

Mr. STARKEY. Within the Community it is mostly from Italy; yes, sir.

Senator HAYAKAWA. And I would like to also ask about the offer by the United States to reduce the duty on Mexican cauliflower and broccoli. This would hurt California's producers; at the same time, it could improve our relations with Mexico.

Mr. STARKEY. Well, Senator, you see the very difficult types of situations that we get in and have to make some very tough decisions. The offer on broccoli and cauliflower is made at this point solely within the context of the trade negotiations and solely in the context of receiving adequate reciprocity from Mexico.

At this point, we do not have the kind of reciprocity that would justify, in my view, the retention of those offers on the table. But I have to say that the negotiation is not complete; that there will be some intensive sessions, probably over the next 2 or 3 weeks and it would be inappropriate for me at this time to say that we will not end up with the kind of deal which is sufficiently beneficial to American agriculture that we would feel it justified to leave those offers on the table.

Senator HAYAKAWA. Am I correct in my impression that the success of the Mexicans enjoying cauliflower and broccoli and other products is due to the experience many Mexicans had in the bracero program up to 1966 where they learned many agricultural techniques.

Mr. OYLOE. Well, Senator, I think it is a combination of that plus the amount of capital investment which has gone from—the technological investment which has gone to Mexico from the United States, more so than just the labor.

Senator ZORINSKY. I would like to present to you a question in writing and if you could answer it for the record for Senator Stone. It deals with avocados.

Mr. STARKEY. Would you like me to read the question for the record?

Senator ZORINSKY. Well, I will read it into the record and then you can answer it in writing.

Mr. STARKEY. In writing, OK.

Senator ZORINSKY. It has come to Senator Stone's attention that if the United States does reduce the duty on avocados that within the next 5 to 10 years Mexico will displace the Dominican Republic as the principal supplier of avocados to the United States.

And he would like to hear your comments as to the possibility of this situation becoming a reality or not. And additionally it is his understanding that only 3 percent of the present avocado consumption in the United States is supplied by the Dominican Republic. If Mexico becomes a principal supplier, he has been informed that the percentage would increase dramatically. What are your views on that hypothesis?

Mr. STARKEY. Would you like that in writing or orally?

Senator ZORINSKY. Well, if you could answer it orally, that will be fine. That will be in the record then.

Mr. STARKEY. All right. I will try to answer that.

The negotiation with respect to avocados has been conducted with regard to the current import and export situation. And as you may know currently the only country that I am aware of that is eligible to supply avocados to the United States because of plant health problems is the Dominican Republic.

The Dominicans have requested this concession and they are the principal supplier of the item and, therefore, because we are bound in the negotiations to negotiate with the principal suppliers, and because the Dominicans have offered a very substantial list of concessions that benefit American agriculture we have felt compelled to make an offer.

As I pointed out, their offers at the present time cover some \$20 million worth of trade, as I recall, and our offers to them in agriculture are substantially less. And, of course, the one that they put highest priority on was the avocado.

The fact that imports represent only 3 percent of consumption, I think, reflects the fact that the Dominican Republic is the only country that is eligible to ship; plus the fact that our barriers with respect to avocados are relatively high.

The ad valorem equivalent of the present import duty ranges between 75 and 95 percent ad valorem. And that is a fairly steep barrier. What we have proposed, if indeed this negotiation holds together, is a reduction of that barrier by about 40 percent, which leaves protection in the range of 35 to 45 percent ad valorem.

Now in the event that the plant pest problems in Mexico are resolved so that Mexico can ship to the United States—and I understand that this may be a possibility—then they certainly would benefit from whatever duty reduction would be applied to the Dominican Republic.

But the duty protection, as I say, will still be in the 35- to 45-percent range at the end of this negotiation, even if the Dominican deal holds together.

Senator ZORINSKY. Another question I would like to ask is: The dairy people are concerned over the proposed concessions to the European Community on cheese. Can you outline what the increases in cheese imports will be? And how do you answer the dairy people and provide them with some assurance that they will not be seriously hurt in this area?

Mr. STARKEY. Mr. Chairman, there is no question that the dairy area is sensitive to the United States and we are very much aware of that sensitivity. However, as far as our trading partners were concerned, this was one of the highest priority items that they put to us in terms of asking for concessions from the United States. And I think it is clear that if the United States had been unwilling to make any concessions on dairy products at all that we would not have been able to conclude negotiations with a number of very important countries, including the European Community, the Nordic countries, Switzerland, Austria, Australia, and New Zealand.

And the concessions of benefit to American agriculture from those countries, I think, as you can see from these tables are rather substantial.

Now we did work very closely with our dairy advisers in trying to put together a proposal that would again strike a reasonable balance between what was necessary to conclude the negotiations and what was necessary to maintain a viable domestic dairy industry in this country. And, of course, one of our highest concerns, was that nothing we should do should adversely impact the viability of our domestic dairy industry.

So the proposal that we worked up, as Ambassador Wolff indicated this morning, has a couple of tradeoffs. First, we would put all cheeses under quota except three categories of cheese that are essentially noncompetitive cheeses. Those are the sheep and goats' milk cheeses and the soft ripened cows' milk cheeses like Camembert and brie and other French-type cheeses which would be exempt from quota provided they are packaged for retail sale.

This has the effect of increasing the percentage of cheese imports under quota—would have the effect from 60 percent currently up to about 85 percent when this deal is put into place. So, in other words, the so-called price break cheeses which are now exempt from quota and which have been increasing at a very substantial rate over the last 4 or 5 years would now come under quota as a result of this deal.

The quotas themselves would be increased, as Ambassador Wolff indicated this morning, by about 30,000 tons which converts into a little more than 67 million pounds. And that would be brought in—phased in beginning in 1980 and we are still discussing with our advisers whether it should be phased in one tranche or over a period of 3 years.

The fact of the matter is that due to the very tight domestic market for cheese that we have had in the last 12 months or so, half of the amount of cheese that we have negotiated in the trade negotiations, already came in irrespective of what we did in 1978. So that, in fact, the additional increase we are talking about is only about 15,000 tons or roughly 32 or 33 million pounds and not the total of 67.

We have done some analysis internally, the Department of Agriculture has, as to the impact of this cheese on the domestic market situation and their studies indicate that if the total 67 million pounds was taken in in 1 year, in 1980, for example, the total impact would be 2 to 3 cents per hundredweight on the price of milk. And if it were taken in over a 3-year period, it would be 1 to 2 cents per hundredweight on the price of milk.

Now as I said, half of it has already come in. So we are only talking about an additional increase of 15,000 tons instead of the total of 30,000 tons. There are some other figures that I have seen put together by industry sources that indicate their estimate that the impact could be as much as 8 or 9 cents per hundredweight. We intend to do additional work on the impact to try and come to a better feel or at least to understand the differences between our estimates and the industry estimates in this regard.

I think the arrangement that we have put together, plus the condition that we have established for the use of those quotas, namely that countries using subsidies have to agree not to undercut the domestic market price of our cheeses, provides substantial protection to the domestic dairy industry in that area.

This means in effect if our domestic Swiss cheese is selling in New York for \$1.50 a pound, foreigners cannot subsidize into that market and undercut that price. It has no relationship whatsoever to our support levels. As the market prices are above our support levels, it is the market price that governs, not the support level.

So I think that this does provide some benefits for our domestic dairy industry.

That together with the elements of the subsidy countervailing duty code, which Dick Rivers will discuss in some detail following my presentation, I think do a pretty good job of striking that kind of reasonable balance that we were looking for.

Senator ZORINSKY. Being with Bob Strauss' office in trade negotiating and looking at this bar graph that you prepared on concessions made and what we have received in return for those concessions, say, with Japan, in the area of livestock, it appears that Japan does not have the ability to produce sufficient meat and livestock or they would not be selling steak for \$34 a pound, I would imagine.

But in the overall view, did you approach these negotiations on a commodity against commodity basis or overall trade with a country—in other words, I see no bar graph for motorcycles and cars—

Mr. STARKEY. That is right.

Senator ZORINSKY [continuing]. Versus cattle.

Mr. STARKEY. That is right.

Well, I have taken a very parochial view here of the agriculture and negotiations per se. The fact of the matter is that at the end of these negotiations for any country to be able to go back to its Congress or Diet or Parliament or whatever, it is going to have to have a bar graph that at least is balanced. And I think that overall when

you add up the total of the industrial and the agricultural concessions that there will have to be a reasonable bilateral balance between countries. It may not be that way in all cases, but I would expect certainly in the case of the—of Japan that part of their balance would be achieved in industrial concessions they might have obtained from the United States.

Part of it might be achieved from the credit or the importance that they give to various of the nontariff barrier codes that have been negotiated because those too are very important. And in fact, as Ambassador Wolff said this morning, long-term considerations are perhaps the most important part of the whole negotiations.

So that gets figured into this balance too. So you may not end up with bar graphs at the end of the day that are completely balanced because you may get some codes added in on top of that which strike the balance. But it will have to be an overall bilateral balance.

Senator ZORINSKY. Well, what you are saying is everybody has to bring graphs home to satisfy their people? This is your way of satisfying me.

But the fact remains that the one question I am having a lot of difficulty in answering, especially to the constituents back home, is the fact that we import half of our energy and have a trade deficit and Japan imports almost all of its energy and has a trade surplus. Now something is wrong somewhere in the way we are doing business with our balance of trade.

And that is why I ask the question: Is there any overview that we would be able to look at concerning the overall balance of trade with a given country. Most people agree it should be a two-way street and, as you say, maybe you can offset one commodity by a different commodity having advantage the other way.

I am curious to know when you sit down at the table, do you look at corn against corn or do you look at a bigger picture than that?

Mr. STARKEY. No. We actually sat down and looked at a much bigger picture. As Ambassador Wolff indicated this morning, industrial products were negotiated on the basis of a formula where each country took out what items they felt were extremely sensitive, in our case petroleum, which was accepted by law and some of the products subject to escape clause actions. Everything else was subject to a formula cut. The Japanese did the same thing, and an effort was made to strike a balance.

In agriculture, we negotiated on the basis of a product-by-product negotiation, but again it was not a question of trading apples for oranges or one commodity for another. Each country had a series of priorities that it felt it would have to satisfy in order to have a satisfactory negotiation.

And our priorities with Japan covered some 150 agricultural items, and as this graph shows, they did not have many priorities with the United States in agriculture. More of their priorities were in industry.

But, yes, we will have the overall information. I hope it will be available very shortly.

Senator ZORINSKY. Well, so far you talked about trade concessions granted or received in terms of the 1976 trade, inasmuch as that is the last measurable year you have figures on.

Have you estimated the actual impact if the MTN were in place tomorrow on the level of U.S. agricultural exports? And what exports would increase and which ones would decrease? Which exports would be affected and by how much?

Mr. STARKEY. Senator, we presently have that work underway right now. It is a very complex job because you have to do this on a product-by-product basis. We looked at it in some very rough terms, and using the ratings that our advisers gave us at one point and, you know, a rough estimate would be, if the thing went into place tomorrow, the additional trade generated might be in the range of \$700 million to \$1 billion. And that is a very, very rough estimate, because it is a very complex thing to analyze and calculate.

But I think it would be substantial and I think that Turner Oyløe can give some of his comments on this, but I think that it is clear that concessions in the livestock area, vegetable proteins, poultry, fruits and vegetables, tobacco would be of the type that we would get significant trade creation from them as a result of these negotiations.

But that work is going to take some additional time, and I do not know, Turner, how long—

Mr. OYLOE. Well, I would like to say that there are a number of measures of these activities. Mr. Chairman, you have one before you. This is a measurement, but no measurement will be perfect.

There is no such thing as a measurement which will explain the situation. So we are doing it a number of different ways: One is the trade coverage; that is the simple one. Another one is we are looking at it commodity by commodity and trying to evaluate this year and through 1978 toward the end of the negotiations—1988, excuse me—but what will happen to trade?

A third point we are trying to do is to say in the case of soybeans to Japan. What is it worth to us the fact that we now have a zero duty binding where we did not have a zero duty binding?

So there are a number of facets to this and I am not trying to make it complicated. It just is by its very nature complicated. So there is not a simple answer to your question, but we will have a set of answers with a set of assumptions. It is not academic; it will be highly pragmatic and practical. And we are working on it right now.

Mr. STARKEY. To give you an example in the case of tobacco in the European Community, our industry was very much concerned that we would lose markets that we already had there. In fact, we have lost a share of the market over the years in the European Community to producers in developing countries. But the concession that we have obtained there is significant enough that not only will we be able to retain our market share, but I think we may be able to expand our market share in the future. So there is a qualitative aspect, and part of it is retention of what we already had that most of us felt we might lose unless we got this concession.

Second, there is a qualitative aspect in terms of what we might get in the future, and the industry feels that this is extremely significant and will help them expand their exports of tobacco to the European Community.

So it is these kinds of product-by-product type analyses that need to be done.

Senator ZORINSKY. Thank you very much.

Richard Rivers, General Counsel, Office of Special Trade Representative.

Mr. Rivers, do you have a presentation of trade codes and their impact on agriculture?

**STATEMENT OF RICHARD RIVERS, GENERAL COUNSEL,
OFFICE OF SPECIAL TRADE REPRESENTATIVE**

Mr. RIVERS. Thank you, Mr. Chairman.

I suspect I am going to end this morning pretty much the way it started off with Ambassador Wolff's remarks. The Tokyo round has been without a doubt the most ambitious trade negotiation ever, and with some 98 countries involved. But it has not only addressed itself to tariffs; it has, I think, much more significantly undertaken some very significant negotiations in the area of nontariff barriers to trade.

There are in fact some eight codes that have been negotiated and each of them addresses a different set of problems in international trade and some of them have been concluded; others are in varying stages of nearing conclusion.

The codes are the code on subsidies and countervailing measures; the code on standards; the code on safeguards; Government procurement; customs valuation; licensing; commercial counterfeiting; an agreement on framework, the international trading institution of GATT, as well as a whole series of nontariff measures not dealt with multilaterally; that is, nontariff barriers that have not been dealt with in the context of a multilateral code but more in a bilateral negotiation.

These codes were summarized in the notice the President sent which appeared in the Federal Register Monday, January 8. It is not really possible for me to go through them in any detail here this morning. I speak with some expertise on the code on subsidies and countervailing duties because that was the one that was my personal responsibility.

I believe that the codes which have a most direct and immediate impact on agricultural trade are the codes on subsidies and countervailing duties, standards, and safeguards. The other codes, I think, are of less significance for agricultural trade.

With respect to the code on subsidies and countervailing duties, this has been one of the most difficult areas both for industry as well as agriculture. And it is one that has been a consistent objective in the United States for many years.

We have sought an improvement in the international rules with respect to the use of subsidies, both export subsidies and domestic subsidies on industrial as well as agricultural products insofar as they affect trade. And I am pleased to report that we have negotiated an agreement which improves the international rules with respect to the use of subsidies, but it also insofar as we fall short of improving the international rules, it gives us an opportunity to improve our own domestic procedures for dealing with subsidies insofar as they affect our interest; in particular, the countervailing duty statute.

If I might, I will not dwell on the discipline that the code contemplates on industry except to say that the code does provide for a flat prohibition of export subsidies on industrial products. With respect

to trade and agricultural products, it was not possible to negotiate a flat prohibition on export subsidies, nor do I think would that necessarily have been in the interest of the United States.

What we have done is negotiate some language which elaborates and interprets and improves upon the rather vague language which has been in article 16.3 of the GATT for many years.

That language relates to third-country market competition; that is, where U.S. exporters find that they are unfairly disadvantaged in an export market by subsidized competition from other countries. The GATT traditionally has simply provided that signatories would agree not to use export subsidies on agricultural products in a way which resulted in that signatory having more than an equitable share of world export trade in that product.

Over the years, that has proven to be a very unsatisfactory formulation. There has only, to my knowledge, been one case in which it was really found that someone had used an export subsidy on agricultural products in a way as to gain more than an equitable share of global trade.

What we have done is elaborate upon that. We introduced some new concepts. The code contains a provision, for example, that states that for the purpose of interpreting article 16.3 of the GATT, more than an equitable share of world trade would include any case in which the effect of an export subsidy granted by a signatory is to displace the exports of another signatory, bearing in mind developments on world markets.

This is a subtle area and it is heavily nuanced, but the notion here is that to the extent you use agricultural export subsidies, you do not do it in an adverse way which displaces countries from markets which they have developed over the years and served through their own exports.

Second, the code contains provisions that address the problem of new markets; for example, the kind of situation where you have two countries attempting to export agricultural products to a country which has not traditionally been a market of either country, one heavily engaged in export subsidies and the other not.

With regard to these new markets, the rule would be to take a look at what would have been the traditional patterns of supply of the product, not only in the world market, but in the region or countries surrounding that new market.

These are new criteria that one can take a look at in determining whether a country has used an export subsidy in a way so as to gain more than an equitable share of world export trade.

Finally, we have taken the language of the previous representative period and made it clear that that would normally be the three most recent calendar years in which normal market conditions have existed.

These are technical points, but they in the sense of giving us an improved handle on export subsidy problems and agricultural trade, I think they are significant improvements in the present rules.

I want to emphasize that the code on subsidies and countervailing duties covers—all of its general provisions cover agricultural trade. All the provisions with respect to transparency, that is, what practices countries are engaged in, consultation, dispute settlement, all of these provisions cover problems arising in agricultural trade, subsidy problems arising in agricultural trade.

The most significant provision in here with respect to agriculture, I think, is this new opportunity we have to solve the very difficult third-country market situation, where we are being displaced from foreign markets by virtue of export subsidy competition.

The principal concession that the United States made in the negotiation of this code was agreement to propose to the Congress the inclusion of an injury test in the countervailing duty statute. This has been, as you probably are aware, Senator—the United States has never had an injury test in its countervailing duty statute by virtue of the fact that our statute predated the GATT in 1947; the countervailing duty statute actually goes back to 1890. We have never required that a complainant make a showing of injury prior to the imposition of countervailing duties.

This code does contemplate an injury test with respect to signatory countries. I should emphasize that this code is based upon the principle of conditional most-favored-nation treatment; namely, if you do not sign the code, if you do not assume the obligations of the code, you do not get the benefits, and in particular it is not contemplated that you get the benefit of an injury test in a U.S. countervailing duty practice.

The injury test takes into account the special characteristics of agricultural trade. For example, there is a criteria that in examining whether injury is occurring to domestic producers one can take a look, for example, at the impact of subsidized imports on domestic support programs, as one criteria that should be examined—in examining whether injury is occurring to in this case an agricultural producer.

As we undertake to implement this code, however, we, I think, will have an opportunity to make significant improvements in the way the countervailing duty statute operates.

In the past it has not—it has been a source of frustration for many complainants. The code contemplates, for example, a number of improvements that permit countries to improve the operation of their countervailing duty statutes. For example, it contemplates, as Ambassador Wolff indicated this morning, the opportunity for provisional measures, including the possibility of a cash deposit or bond early in the game so that a domestic producer is not subjected to the aggravation of subsidized imports over an internal period of time.

The time limits, I might emphasize and Ambassador Wolff mentioned this morning, are the outside time limits. That is, the Secretary of the Treasury would have 30 days in which to examine whether a complaint is sufficient as a matter of law, but he need not take that full period of time. And we would hope that in many cases it would not be necessary to.

The second segment of time is the period of 90 or 120 days to the preliminary determination. That is the outside limit and we would hope that in many cases, particularly in agricultural cases where support levels and subsidies are published and quite well known, it will not be necessary to take that degree of time before reaching a preliminary determination that a subsidy exists and that it is causing injury to domestic producers, at which time, once you have a preliminary determination, you can, if the circumstances warrant, deploy provisional measures; that is, as I said a moment ago, cash deposit

or other type of security, which could be in place during the balance of the investigation.

After the preliminary investigation, we would contemplate no longer than a 4-month period once again at the outside for a final determination, at which there would be a final disposition of the case.

Senator ZORINSKY. These are the mechanics of the injury test that you are outlining?

Mr. RIVERS. Yes; the way the countervailing duty statute would operate.

The code, I should emphasize, contemplates two alternative remedies for dealing with subsidy problems just in general, whether agriculture or industry.

The first is simple countervailing duties along the lines which I have outlined here with the provisional measures and with the injury test as described in the code. There is, however, the second alternative remedy which deals with all three cases in which subsidies can cause problems in international trade.

The first remedy deals only in the case of imports entering our market and causing injury to domestic producers. The second remedy which is the international remedy is based on a different theory. It is not the notion of injury, but it is more the notion that you have signed an international agreement; you have assumed obligations; others have assumed obligations, and you have a right to expect that those obligations will be honored. It is not a notion of injury, but it is a notion of what is in the GATT terminology is called serious prejudice. It is more of a contract theory.

But the second remedy deals with all three cases in which subsidies can cause problems in international trade, not only in the case of imports entering the United States, but also the much more difficult case of import substitution where we are finding it difficult to land our exports in a foreign market by virtue of a, for example, domestic subsidy program which is nullified or impaired of tariff binding, and in the third-country market competition case which I have outlined here in the case of agriculture, the rules that we have written with respect to third-market competition in agricultural trade.

That is a very brief sketch of the code of subsidies and countervailing duties. It has many, many facets. I am pleased that the negotiations are substantially concluded. We do have indication that the major developed countries intend to sign this code and assume the obligations, and we are quite hopeful that developing countries will sign this code. In particular, we are pleased that, as Ambassador Wolff noted, that the Government of Brazil has recently announced steps to eliminate its export subsidies on all products, not just industrial products, but agricultural products as well over the period of the next 4 years. And that is a very important step. It means that the Government of Brazil is positioning itself to become a signatory to this agreement. And we hope that that is a precedent for other developing countries to assume the obligations of this code, both with respect to trade in industrial, but in particular agricultural products.

Now, the other codes that I think are of importance to agriculture—and Ambassador Wolff touched upon this morning—the second I think would be standards. The objective of the code on standards, as

Ambassador Wolff noted this morning, was to set down the rules, procedures the countries must abide by as they undertake to set product standards. The idea is you do not use product standards in a way so as to discriminate against international trade.

This is an area which I think is of particular importance to U.S. export interests who frequently have been victimized by foreign standards practices with respect to products exported from the United States.

It does contain provisions relating to health standards, special treatment with regard to health and safety standards. We are not opening up the U.S. market to unhealthful or dangerous products entering the United States, but we are attempting to set down some workable international rules that will control the practice of using standards in a way as to create unnecessary obstacles for trade.

The third code—I should say that the subsidies code and the standards code are substantially concluded. The third code which is not yet concluded and in which there are several major outstanding issues is the safeguards code. This is the code having to do with the interpretation of article 19 or the GATT.

Article 19 of the GATT is the article that sets down the rules by which countries must abide when they undertake temporary import relief measures that in our law it is reflected in the escape clause; section 201 escape clause cases, for example.

We in the United States have a great interest in getting other countries to comply and abide by article 19. When a country undertakes to take an import relief action, we want it to be done in accordance with international rules and everyone to have an opportunity to know about it and fully notified and temporary and phased out over time.

We would like to have agricultural trade covered in the safeguards code. We want very much to have it covered comprehensively. However, we have come into some problems with respect to our own section 22 and the question of the operation within our agricultural policy in this regard. So that is one impasse that we presently have that we hope to work out in the next few weeks with respect to the coverage of agriculture under the safeguards code.

That is a very sketchy outline of the three things that I think are of the most immediate importance and significance.

There is another aspect of these negotiations. I will not go on much longer. There is another aspect of these negotiations and that is reflected in the agreement on framework—what we call framework.

This is the first time in some—in the history of the GATT that there has been a major renovation of the institution, the international institution by which the rules of trade are set and enforced. As you know, the GATT was created in 1947 as part of the Bretton Woods system. Since that time there has been an enormous growth in volume and the complexity of world trade. And I think there has been a growing recognition over the past decade that the international machinery, the institutional machinery, was simply inadequate to deal with the new realities of global trade.

So the framework agreement is, I think, especially important, and it has an indirect importance for agriculture. And it is in that negotia-

tion where we have written the new rules, for example, that will govern such things as dispute settlement. So that that is where the rules were written in such areas as dispute settlement so that in some future date when the United States feels that perhaps its agricultural interests are being unfair and prejudiced or impaired in third-country market situations, it will be those rules, those procedures that we will have access to and have an opportunity to have our day in court and have a panel determination which will mean something in the literature of the GATT.

That concludes my brief summary.

Senator ZORINSKY. What have you done to make it simpler for us to trade with other countries?

Mr. RIVERS. Well, I was interested by your questions about the balance of trade. The Tokyo round is, as I said earlier, a major and very ambitious effort of trade liberalization, and it is going to open doors for U.S. products abroad.

It is not in and of itself going to correct our own balance of payments, balance-of-trade problems. Those problems are not only deeply rooted in the impediments which our exports encounter abroad, but in more fundamental economic factors. You mentioned oil, I think comparative growth rates, inflation, exchange rates; all of these other factors have to be taken into account and explained, these horrendous deficits we have been incurring.

But the Tokyo round is going to open doors for U.S. products in foreign markets. And it is going to result in a growth in world trade. And I think that will be of benefit to the U.S. economy and to the global economy.

I have no bar graphs with me. It is not possible to prepare bar graphs that show the impact of a code on subsidies and countervailing duties on U.S. exports. I suspect that there are probably people who could undertake to prepare such a bar graph, but I think in honesty to you, when we are dealing in the subject of nontariff barriers, it is very hard to produce any kind of econometric data that is going to demonstrate it, but I think we are going to have better rules, and it is going to make a more open and more equitable trading system in which to do business.

Senator ZORINSKY. Mr. Rivers, many countries have a state-owned agriculture; some have multinational conglomerate-owned industry; some have private industry, some have a combination. One example that comes to my mind is the sugar industry in the Dominican Republic. It is shared between multinational conglomerates, private industry, and the state.

In the event that the injury test is used, who does this country seek to adjudicate it with—the country where it resides or the industry itself?

Mr. RIVERS. If we decide for ourselves according to our own procedures that subsidized imports are entering the United States and are causing injury to our domestic producers, then we can impose under this code—we can impose countervailing duty and that is not something that we have to negotiate with internationally. It is not an action that we have to seek any kind of prior international approval. We simply have to go through the appropriate procedures. We have

to demonstrate that it is a subsidized product and it is entering the United States in such a way as to cause injury as it is defined in the code.

And once we have done that, then that is a sovereign unilateral act by the United States. And other countries might—you know, if the other countries feel that we did not follow the procedures properly, they can ask for consultations and——

Senator ZORINSKY. Would that affect all the sugar coming from that specific country?

Mr. RIVERS. Yes, sir, all the sugar which was benefiting—all the sugar benefiting from the bounty of grant, all the sugar which was subsidized.

If sugar is not being subsidized, then there would be no countervailing duty imposed.

Senator ZORINSKY. Well, thank you very, very much, Mr. Rivers.

Mr. RIVERS. Thank you.

[Whereupon, at 12:25 p.m., the committee adjourned, subject to call of the Chair.]

